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THE OUTLOOK

Has the Rise Gone Far Enough?—The Railroad Situation—Effects of World-Wide Inflation—Export Trade—Building Construction—Market Prospect

WITHOUT doubt the principal cause of the active and advancing stock market has been the very general feeling that the worst of the peace readjustment is over or soon will be and that a period of active business is ahead.

This view has been repeatedly expressed by Judge Gary and other prominent business men and financiers, although as a rule they are careful not to set any time limit for readjustment to end. Moreover, in many lines of retail trade dealers see for themselves that stocks of goods on hand are light and that the demand from the public continues good.

The causes and necessity of a temporary slackening of trade have been clearly visible to all. The people see what is the trouble and have concluded that it is temporary. Hence many of them are ready to buy securities in anticipation of the normal peace prosperity which they expect. The question now arises whether this view is not becoming too general and whether prices have not advanced rather more than the necessarily slow progress of readjustment warrants.

The Railroad Situation

THE failure of Congress—universally condemned—to pass the railroad appropriation bill before adjournment has brought the roads once more into the limelight. They are now earning less than the amounts guaranteed to them by the Government when it took over operation for war purposes. The Government has bound itself to make good this deficit. But it has failed to appropriate money for this purpose.

The awkwardness of this situation caused sharp breaks in railroad stocks when Congress adjourned but the liquidation did not continue. Large interests did not sell. Their reasoning was that the appropriation was certain to be made later and that, in the meantime, some way would be found to take care of the roads, though possibly at some slight increase in the cost of the money. Steps to this end are already being taken.

The War Finance Corporation has the power to make advances to the roads. It could do this by direct loans; or by issuing its own certificates of indebtedness and lending them to the roads, which would then rediscount them at the Federal Banks, provided those banks were willing to take them; or it could be done by loans to banks which should advance money on railroad securities.

It has been also suggested that a bankers' pool might be formed to advance money to the roads until a Government appropriation becomes available. As this is written no definite plan has been decided upon, but the difficulties created by the peanut politics of the Senate are by no means insuperable and it is not doubted that a solution will be found. In that case the railroad situation will be left substantially where it was before.

Effect of World Inflation

THE Swiss Bank Corporation, which throughout the war has devoted special study to the progress of currency inflation, has recently compiled some very interesting figures on the situation at the end of 1918 as compared with that before the war, from which the table herewith showing the growth of war, currency and bank deposits, is rearranged.

GROWTH OF WAR CURRENCY AND BANK DEPOSITS

	% of Gold Cover to Currency Notes June, 1914	Dec., 1918	% Increase in Deposits
Great Britain	134%	26%	104%
France	67	11	63
Russia	98	2	...
Japan	67	82	124
Germany	54	7	172
Austria-Hungary	54	0.7	...
Italy	59	8	260
United States	69	66	60

Note—The increase in deposits is 1918 over 1913, except for Japan and Germany, where 1917 figures are the latest available. British deposits are estimated, and the increase for the U. S. is our own estimate. No late figures on bank deposits in Russia or Austria are obtainable.

Taking the four great nations which now really control the world's destinies, Great Britain, United States, France and Italy, we find that the gold cover for their currency notes, according to these figures, is now about 28% against 82% in 1914, while their bank deposits are about 2¼ times those of 1913.

In the principal neutral countries a different condition prevails. Their gold cover for notes is now about 60% against 50% in 1914; but their bank deposits, so far as figures are available, show as great an increase as those of the belligerents.

It is plain that the situation in Russia and Austria is one of demoralization. That in Germany is hazardous, and that in Italy would be hazardous if it were not for the strong backing afforded by other entente nations. Japan, the United States and the neutrals, on the other hand, are as strong as ever from the banking standpoint.

This tremendous quantity of currency and credit, expanded to meet pressing war needs, cannot be rapidly reduced. After our Civil War, in spite of the flood of paper money then issued, the actual quantity of currency of all kinds was reduced but little—from $715,000,000 in 1865 to $662,000,000 in 1867—and thereafter continued to increase, slowly until 1878, more rapidly after that year. The country grew up to its currency.

As yet the world at large has made little or no progress towards reducing its currency or its outstanding credit. What the outcome will be in Russia, Austria and Germany no one could attempt to predict. In America, England and France the probabilities favor a slow reduction in paper money, but it is quite possible that outstanding bank credits may have reached a new high plane from which they will recede but little.

Under these conditions it is not surprising that average commodity prices the world over have declined but little. If any sort of goods is plentiful, its money-value falls; if money is plentiful, its goods-value falls, or as we commonly express it, prices rise. This is, of course, an underlying rather than a direct factor in prices, and it does not always operate immediately; but it is a very important factor because it affects all values taken together and must eventually make itself felt.

It is for this reason that we have consistently expressed the view that the fall of average commodity prices after the war must be gradual. It was gradual after the Civil War and it should be still more so now because the present expansion is world-wide, while that of the '60s was confined to the United States.

The mixed character of the price situation now is illustrated by the fact that copper is down from a high war price of 35 or 36 cents, and a Government fixed price of 26 cents, to a present price of 15 cents; while coffee, which remained comparatively stationary during the war, has now risen quite sharply because of the prospective renewal of the European demand.

The whole world is now struggling with the problem of readjustment of prices and wages to peace. The steel industry, which has so far maintained prices near the Government fixed level of the war, is now in conference with Secretary Redfield in the effort to arrive at a new price basis, and it is the expectation of the trade that reductions will result.

As much progress has been made in this great readjustment as could reasonably be expected but it must inevitably take time and great business activity cannot be expected until the process has progressed further than at present.

Export Trade—Building Construction—Failures

WHILE our January exports showed no diminution, forward orders for foreign consumption are smaller than had been hoped. The difficulty lies in lack of money with which to buy. European finances generally are much strained, and war demands on our own Government are still too heavy to permit us to lend money extensively to Europe with which to finance peace purchases here. Our banks have loaned Belgium $50,000,000 for that purpose and it is reported that similar loans will be placed in Chicago and probably others through New York; but in view of the many demands on our banks now, it is a question how far or how fast this kind of financing can progress.

Likewise, South American and other undeveloped countries have been accustomed to borrow from Europe to meet their construction needs. That is not now possible, and American supplies of capital for such a purpose are limited. The fact is being realized that before we can build up a large peace export trade we must lend money abroad and must also reduce our prices considerably below the war level.

Building construction should soon afford a considerable domestic demand. It is in general about a year behind throughout the United States, and to a great extent throughout the world. Rents are rising and home accommodations in many sections are difficult to obtain. The building materials market is now believed to be pretty well stabilized and builders are placing orders more freely. While wages have not declined, the efficiency of labor in this line has greatly increased. A large concrete construction company has recently stated that its total cost per yard of concrete, including labor, which on January 1 had fallen but little from the high war level, has now been very sharply reduced.

Business failures, usually an excellent indication of trade conditions, have increased but little from the low war level and are still below the normal average.

The Market Prospect

WHILE the money market from week to week is now chiefly affected by Government operations, it is to be expected that money rates will work higher rather than lower during the spring months. Business loans are decreasing in many lines, but in others they are maintained to carry unsalable inventories, and loans on Government paper tend to increase—an undesirable tendency.

Under these conditions any immediate advance in the bond market is improbable, but we expect comparative stability, and it seems clear that the next big swing, when it comes, must be upward.

In stocks, the railroad situation remains as doubtful as ever. The motors have risen sharply and are probably high enough for the present. There are indications of distribution in these issues, also in the steels, equipments and tobaccos. The coppers, having risen but little, should continue to show improvement, but would doubtless react in sympathy with any weakness which might develop in other sections of the market. Copper metal has now reached a level where considerable resistance to any further decline would be encountered.

It is difficult to measure with any accuracy the buying power and enthusiasm of the public when once a bull movement is well under way. There is a possibility that the public might run away with the market—although the difficulty of borrowing the money to finance such a movement is obvious and the banks would doubtless endeavor to check it by raising rates. But in general we believe that those who bought stocks at lower prices (aside from the coppers and some other issues which have risen but little) should accept at least a part of their profits and should take precautions to prevent losing the rest in case a sharp reaction should develop.

March 10, 1919.

E. M. Herr On the Business Readjustment

President of Westinghouse Electric & Mfg. Co. Says Business Still On Down Trend—Harmful Policy of Government—Problem of Labor

Interviewed by BARNARD POWERS

EDWARD MUSSER HERR, as the head of one of the largest industrial organizations in this country with business nerves reaching all over the world, is in a particularly well placed position to get the beat of the business pulse, and for that reason THE MAGAZINE OF WALL STREET requested that he give our readers the benefit of his opinion of the business situation. Mr. Herr is a keen observer and a careful thinker and his written or spoken remarks are always accorded the widest publicity in the public prints throughout the country.

Before attaining the presidency of the Westinghouse Electric & Manufacturing Co., Mr. Herr had enjoyed a long and successful business career. Born at Lancaster, Pa., in 1860, he graduated from the Sheffield Scientific School of Yale University with the class of 1884, and in 1915 received the degree of A. M. from his Alma Mater.

From 1886 to 1890 he was division superintendent of the C., B. & Q. railroad and division master mechanic of the St. Paul railroad, 1890-1891. From 1891 to 1892 he was general superintendent of the Grant Locomotive Works of Chicago, and thereafter until 1894 was general manager of the Gibbs Electric Co. of Milwaukee. In the following year he was assistant superintendent of motive power of the Chicago & Northwestern, and from 1896 to 1898 was superintendent of motive power of the Northern Pacific railroad.

In 1898 he began his association with the Westinghouse interests, which finally resulted in the presidency of the great Westinghouse Electric & Manufacturing Co. From 1897 to 1905 he was general manager of the Westinghouse Air Brake Co., and from 1905 to 1911 was first vice president of the company which he now heads. He was elected to his present position as president in 1911.

Looking at the Facts Squarely

Although just on the eve of an important business trip when the writer called, Mr. Herr consented to give his views on the situation.

"Business is good—that is to say, it is on a good basis," said Mr. Herr, "but it is slowly declining, on account of prices. This is inevitable. In my opinion business will continue to decline until there is sufficient readjustment of prices covering raw materials, labor and all the elements which go into production. It seems hardly probable, looking at the situation from the most optimistic viewpoint, that there will be any immediate increase in the volume of business. The present times are unusually difficult to gauge and I make no claims of being a prophet. Some of my business friends—men of the widest experence and the soundest judgment—take the contrary view, but I believe we shall be lucky if we see an up-turn in business during the current year."

Mr. Herr qualified his foregoing remarks by the statement that he did not wish to be considered a pessimist, but that he was looking matters squarely in the face and judging facts as he saw them.

"I have great confidence in the ultimate future," he said, "but I believe that as much harm can be done by inopportune optimism as by inopportune pessimism. I believe that there will be a big business boom some day, but that day is still a considerable way off."

Why Business Falls Off

Asked for the reason for the decline of business, he replied:

"It is only natural that there should be a recession. People are uncertain—they don't dare go ahead with materials prices high and with a declining tendency. It is a curious fact that it is possible to be too close to business to obtain an accurate perspective of what is happening. I recall certain copper interests who ought to have every facility for obtaining the proper angle on the copper market, but who did not hesitate to predict that when Government price restrictions were removed the metal would soar to 40c per pound.

"It is of great importance that the delay in resumption of business expansion should be as short as possible. There is one way, I believe, by which business could be stimulated, and that is if the producers of raw materials or semi-raw materials would put prices down, resulting in the lowering of prices of all other commodities. You cannot have buyers until you make it an object for them to buy.

Business Needs a Major Operation

"It is a question in my mind which is the better policy to be pursued in the reduction of prices—one course, and the one we are now following, is that of gradual reductions, while the other is that of a sudden and drastic cut all along the line—what we might call a major operation on business. The first is long drawn out and tedious, while the second would be short but painful."

Government's Harmful Railroad Policy

"The greatest problem, of course, is that of labor and the Government's attitude with respect to labor makes the problem doubly difficult. The Government is artificially upholding the price of labor through its control of the railroads. As the railroad industry is the greatest in the country, the result is far-reaching. Government control of the railroads seems to insure railroad employes against wage reductions, and there are no indications that the Government is even considering such reductions. This makes it very difficult for the smaller industries, when price reductions must be made or business continue to decline.

"Another factor that vitally affects the labor situation is the manner in which the Government is holding up the price of foodstuffs. This keeps up the cost of living, and if continued in a time of declining business will cause the wage earner to decide very soon whether it is better for all to receive smaller returns than now prevalent with continued high cost of living, or whether wages shall be maintained and some receive no wages at all."

Our Export Prospects

On the subject of exports, Mr. Herr holds some very pronounced opinions.

"We are going to take a totally different position in the export field from now on," he said. "We are now a creditor nation and cannot continue to go on exporting as we have in the past with little or no interest in the foreign nations who become our customers. A preliminary necessity is for financial interests to realize that we must invest our money in foreign countries and that we must bear our share of the burden as have England, France and Germany. Only in that way can we properly expand our foreign trade. Europe cannot pay us in money. We must take commodities in return or some form of foreign obligations, thus cancelling our credits by investing in foreign customers' goods or property. We have got to get away from the idea of large profits and high prices. In short, we have got to trim down or downwards. We must be satisfied with lower rates of profits and maintain, if we can, a satisfactory return through the volume of our business.

"I have the strongest belief in the efficiency of American industries. If labor will take the right attitude, we can pay higher wages than other countries and still beat the world in production, but labor must work diligently and efficiently. I do not mean by that the forcing of labor to unusual efforts or undue exertions. Let every workman do only what he can with the facilities given him in our modern industries and in that way maintain production. He can then demand a good day's pay for a good day's work, with the assurance of getting it, and with good wages steady employment. Restriction of output means defeat in world competition and hard times for

employer and employee. The war has taught us many valuable lessons. There is a growing spirit of cooperation. One feels it in dealing with employes, with competitors and with customers. Formerly the farmer in the West paid no attention to and showed no interest in shipping. He figured that that was something which did not concern him, whereas it concerned him greatly, inasmuch as we could not consume everything the farmer produced and other outlets had to be found. He now realizes that ships are needed to move his surplus crops to other markets.

The work of Mr. Hoover has been invaluable. He has showed us how to cut down on consumption and still have plenty. It is of the utmost importance that we hold on to the lessons we have learned in the last few years and not lapse into our old extravagant habits. There are those who seem to cling desperately to war prices and rates and it appears now as if the readjustment would be gradual instead of prompt, through the major operation I have suggested—but through a too slow readjustment we take the chance of losing our big opportunity in the export field, and we may not get the participation in foreign trade which we might otherwise have obtained. By the time our prices are down to where Europe will buy, Europe may have rehabilitated her own industries to a point where she will be more or less independent of our products.

A NEW "OPPORTUNITY"

They do me wrong who say I come no more
When once I knock and fail to find you in;
For every day I stand outside your door,
And bid you wake, and rise to fight and win.

Wait not for precious chances passed away,
Weep not for golden ages on the wane;
Each night I burn the records of the day,
At sunrise every soul is born again.

Laugh like a boy at splendors that have sped,
To vanished joys be blind and deaf and dumb;
My judgments seal the dead past with its dead,
But never bind a moment yet to come.

Tho' deep in mire, wring not your hands and weep,
I lend my arm to all who say "I can";
No shame-faced outcast ever sank so deep
But yet might rise and be a man again.

Dost thou behold thy lost youth all aghast?
Dost reel from righteous retribution's blow?
Then turn from blotted archives of the past
And find the future's page as white as snow.

A Century of Prices

An Examination of Economic and Financial Conditions as Reflected in Prices, Money Rates, etc., During the Last 100 Years, with a View to Establishing General Principles which May Aid in Interpreting the Present and the Future

By Ex-Senator THEODORE E. BURTON, Chairman Board of Directors Merchants' National Bank of New York, Author of "Crises and Depressions," etc.; and G. C. SELDEN, Associate Editor of "The Magazine of Wall Street," Author of "The Machinery of Wall Street," etc.

II—Great Economic Forces Since 1790

IT is desirable first to view the operation of economic and financial forces in as broad a perspective as possible. In that way a better grasp of principles is obtained.

For this broad view the records of American conditions alone are inadequate. The United States before the Civil War was a new, detached, undeveloped nation. Its banking system was crude. Its supply of capital was trifling compared with its natural resources. Because of its great area, the imperfect means of communication and transportation then existing were entirely insufficient to weld it into an economic whole. And the business records of that time are fragmentary and incomplete.

England was the nation that, in the first half of the last century, had reached the highest industrial and financial development; and owing to her position as the world market for capital, a position which remained entirely secure until interfered with by the great war, her economic records are more representative of world business than any others available.

The two graphs showing the "Level of English Commodity Prices" since 1782 and the prices and yields of "British Consols" since 1790, reflect in condensed form English money market, investment and business conditions for a century and a quarter.

Commodity Prices

Taking up first the level of commodity prices, the primary fact must be recalled that a price represents not an absolute or independent figure but a *relationship*—the relation of the value of the article priced to the value of gold or of whatever may be the standard money of the time.

Prices must therefore be viewed from two angles: The value of money on one side, and the value of goods or commodities on the other side. The idea of the money-value of goods is familiar; but its less familiar reciprocal, the goods-value of money, is equally significant.

Commodity prices, therefore, may rise because commodities become worth more or because money becomes worth less; and they may fall because goods can be produced or manufactured more cheaply, or because money is growing scarcer in comparison with the work it has to do, and is therefore becoming more valuable because it is in relatively small supply.

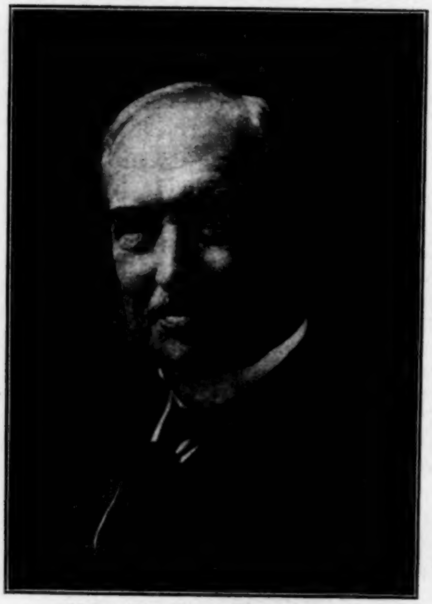
Both these factors are in constant operation, sometimes the one being more important and sometimes the other. So the movements of the general level of commodity prices, like those of a sailboat crossing a river, are always the resultant of two forces acting at the same time.

Another influence of some importance as affecting the temporary and minor movements of commodity prices is what might be called "the psychology of prices." Buyers are more anxious to buy when other buyers are also anxious, and the same is true of sellers. So when a buying or selling movement is once well started it often carries prices beyond their natural level. Also, certain prices are so firmly established by custom that they are very slow to respond to actual changes in conditions. But these factors are of minor importance in considering the broad price movements of a century.

With these principles in mind, what are the economic and financial changes re-

flected by the movements of English commodity prices—which, it is to be remembered, broadly represent the prices of the whole commercial world?

The first point to strike the eye is the very great effect on prices of the Napoleonic Wars, 1793-1815, and the World War, 1914-1918. The highest price level of 1809 was more than 80% above that of 1789, the year of the French Revolution, and the English price level at the end of 1918 was approximately 125% above that of July, 1914. In each case (and also in our own Civil War, as will



Hon. Theodore E. Burton

be seen later) high prices were due to a scarcity of products resulting from the great diversion of labor power into actual fighting forces and into war work and from the exceptional demands and wastes of war, together with a big inflation of currency and credit.

No such tremendous advance in prices would be possible without more money, or more credit, or more of both. It takes twice as much money or credit to handle a thousand bushels of wheat at $2 a bushel as at $1 a bushel, and the same with other commodities. If a greater supply of money or credit were not provided, the rise of prices resulting from scarcity of goods would soon cause "tight money," a condition which would seriously hamper and disturb the all-important war production.

In the late war both England and America endeavored to check the upward flight of prices by a policy of price-fixing. The results were not wholly satisfactory—notably in the cases of coal and wheat—but on the whole the experiment may perhaps be called a success as compared with what might have happened without such a policy. The only policy which could entirely prevent rising prices in time of war would be a government control so complete as to amount to the theoretical socialistic state.

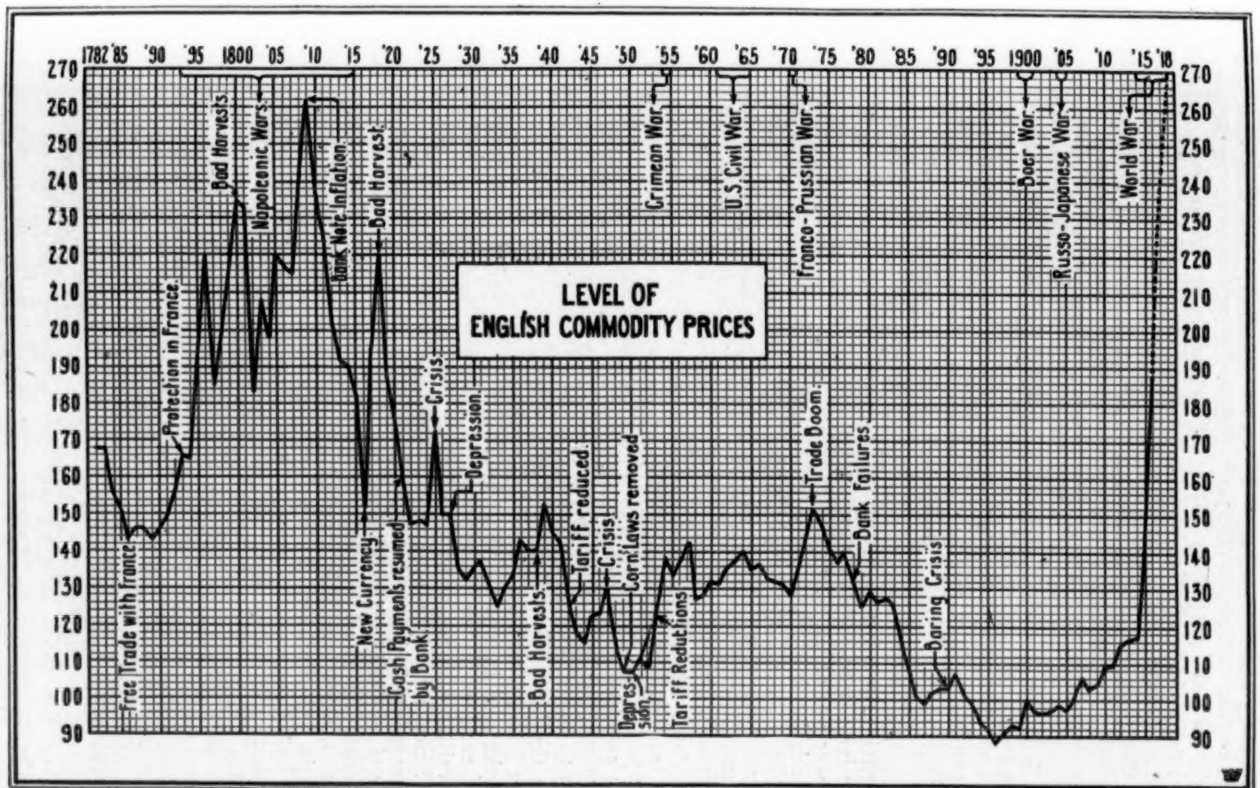
It will be noted that smaller wars, as the Crimean War and the American Civil War (comparatively small so far as the effects on the world at large were concerned), had a similar though less important effect on prices, and that a small price-boom followed the Franco-Prussian War.

In every case a decline from high war prices soon followed, but the extent and severity of the decline depended on numerous other conditions then entering the situation.

Effect of Cheaper Production

The next point to be noted is that down to 1896 the broad tendency of prices had been downward for 87 years, although this tendency had been interrupted by numerous sharp rallies and by advances which, although of great significance at the time, eventually proved to have been temporary. If we take 1820 and 1900 as average years, not much affected by wars and representing neither the highest nor the lowest prices of those times, we note a decline from about 180 to 100, or about 45% of the higher figure.

The principal cause of this decline was the cheapening of production through improvements in machinery and in transportation. The machine-made shoe is cheaper than the hand-made shoe because less human labor is necessary to make it. Wheat raised



English Commodity Prices—This continuous index of English commodity prices since 1782 is (with the exception of the last two years) from *Todd's Mechanism of Exchange.* It is based on Jevons' index down to 1860, Sauerbeck's 1860-70, the British Board of Trade index 1871-1916, and the *Economist* number for 1917 and 1918, the first, third and fourth having been recalculated to fit the third. These substitutions do not seriously affect the value of the line as a continuous record.

by the aid of the tractor, the harvester and the threshing machine, and moved to market over the railroad, is cheaper than wheat sown and reaped by hand or by hand tools and hauled by horses over rough or muddy roads. And this transformation has extended throughout all industry.

But why, it will be asked, in view of this continuously cheaper production, did prices rise from 1850 to 1873, nearly a quarter of a century, and from 1896 to 1914, when large-scale production was reaching its highest development? It is true that both 1850 and 1896 were periods of relative trade depression; but that fact alone does not answer the question. A more comprehensive reason must be sought.

The answer lies at the other end of the price-relationship—the supply of money. For although the supply of goods may be increasing, if the supply of money increases still faster, prices must soon rise.

In 1850 the world's production of gold was approximately $40,000,000 annually. Through discoveries in California and in Australia, it rose to about $150,000,000 in 1853, fell to $91,000,000 in 1874, and did not again rise above the high point of the '50s until about 1893, when discoveries in the Klondyke and improved methods of mining resulted in another great increase, until $466,000,000 was reached in 1912. Since that date production has been comparatively stationary.

A better view, however, is obtained by considering the world's stock of gold on hand, since but little gold is consumed, in the ordinary sense of that word. This stock is estimated to have been about $2,200,000,000 in 1850; to have risen with reasonable regularity to about $6,000,000,000 in 1896, and thereafter at a more rapid rate to perhaps $11,000,000,000 in 1916.

In addition to this increase in the supply of gold, there has been a constant increase in the amount of credit based upon each dollar of gold, and credit serves the same purpose as money in the transaction of business. In the United States, more than 95% of all payments are made by bank checks, which are a form of credit.

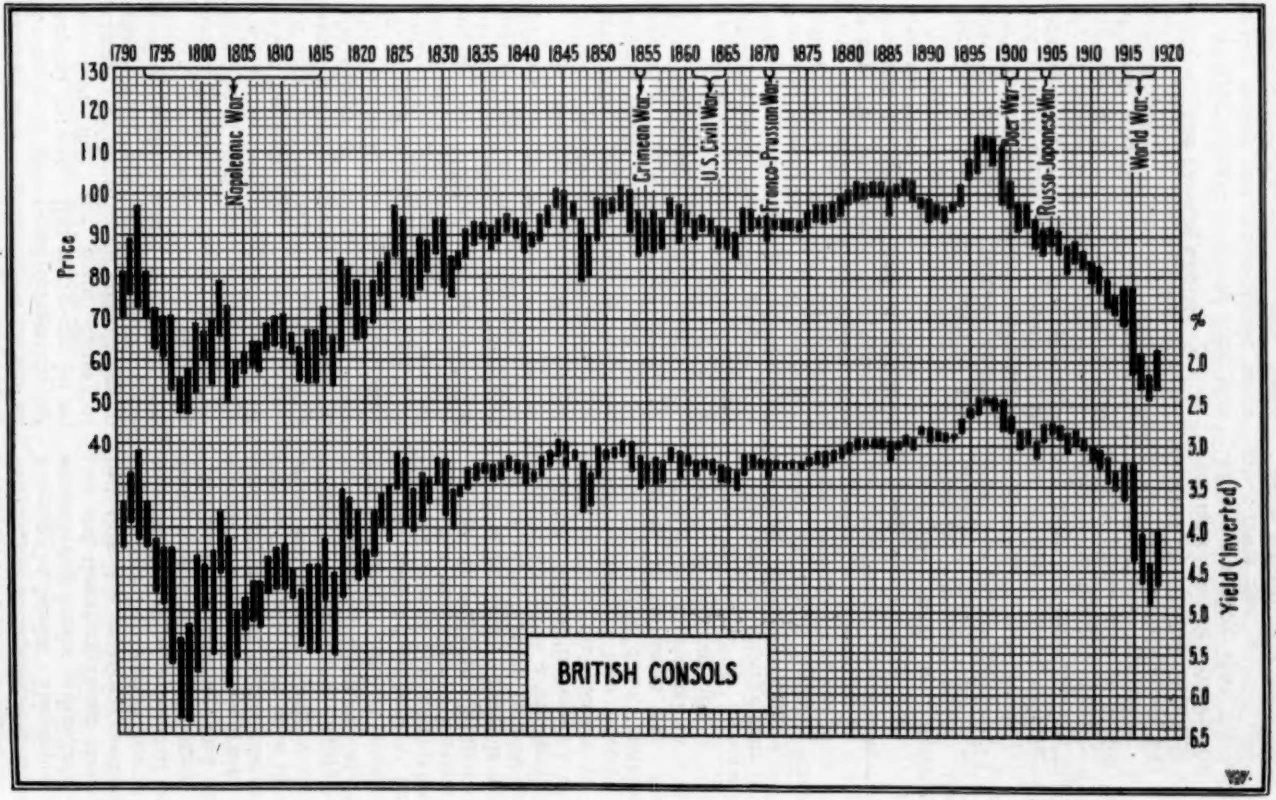
We conclude, therefore, that from 1850 to 1873 the increase in the supply of money and credit was, broadly speaking, more rapid than the increase in the supply of commodities through cheaper methods of production, so that prices rose (aided somewhat by three wars), that from 1873 to 1896 the increased production of commodities got the upper hand, causing a general decline in prices; while after 1896 a further great increase in gold production and in the use of instruments of credit turned the scale and brought higher commodity prices.

The reasons for many of the minor changes in the level of prices are shown upon the graph. It is noticeable that these minor changes have become less violent with the passage of time, a highly desirable development. If some plan could be invented to keep the general level of commodity prices stationary it would be an almost inestimable boon, but apparently such a plan would have to be world-wide in its application. Several ingenious methods have been suggested, but they seem to require a much higher plane of world-organization than has yet been attained.

The Supply of Capital

The best index to the relative supply of capital over such a long period as is here considered, is to be found in the yield on the British consolidated debt. Consols have no date of maturity and have a longer continuous record than any other security. Both prices and yields (the latter inverted) are shown on the graph for completeness, as the rate of interest has twice been reduced.

There are, of course, two main elements in these prices—the credit of the British nation, and the relation between the demand and supply of capital for investment. From 1816 to 1914 British credit stood so high that changes in the yield on consols were due almost entirely to variations in the demand and supply of capital; but the Napoleonic Wars and the World War of 1914 caused such a vast in-



Bʀɪᴛɪsʜ Cᴏɴsᴏʟs afford the longest continuous security record obtainable. They have no date of maturity. The interest rate was 3% down to 1888, 2¾% from 1889 to 1903, and 2½% from 1904 to date. Since the change in the rate affected the price, we show also the yield throughout the period, the scale being reversed to make the line comparable with the prices.

crease in the British debt that national credit was somewhat affected, and consols fell for that reason as well as because of the rapid dissipation of capital in war. But there can be no question that the main cause of changes in the price of consols lies in the relative supply of capital in comparison with demand.

We have already noted that the broad downward trend in commodity prices until 1896 was due chiefly to the increase in the productive capacity of labor through improvements in machinery and in transportation. The same influence caused an increase in the supply of capital compared with the demand for it, which was reflected in rising prices for consols from 1798 until 1896. In fact, after 1825, by which date British credit was thoroughly re-established, the accumulation of capital in excess of current needs was the principal cause of the rise in consols.

This, among other considerations, led to a pretty general belief, in the late '90's, that the interest rate on capital would continue to fall, or at any rate would not rise materially. The reasoning seemed clear: Improved methods of applying labor caused greater production of wealth, which in turn resulted in greater proportional accumulation of capital. This had caused rising bond prices and falling income yields for nearly a century. The presumption was exceedingly strong that the same causes would continue to operate and to produce a similar effect.

The same causes did continue to operate; but as we have seen in discussing commodity prices, another very powerful influence counteracted and overbalanced them from about 1896 onward—the fact that the supply of money and credit was increasing even more rapidly than the supply of goods, and thus forcing commodity prices upward.

The Flow of Capital

At first thought it would seem that easier money and credit should cause higher prices for consols and other similar securities. Temporarily, they do have that effect, because of the accumulation of deposits—or *liquid* capital—in the banks. This liquid capital immediately tends to flow into securities and therefore raises their prices. But this is a temporary effect only. Liquid capital very soon flows *through* securities, and by means of government, municipal, or corporate expenditures, into concrete and tangible things. In fact, the securities are issued only for the purpose of securing capital for expenditure upon these concrete and tangible things.

The capital which flows into consols, for example, is not held idle by the British Government. It is soon *spent,* for one purpose or another, and the spending means the employment of labor, the purchase of materials and supplies—in short, the prompt turning of liquid capital into tangible property. Let us suppose that consols are sold in order to erect a big government building. Then the capital which is absorbed into the consols is immediately converted into marble, bricks, structural steel, food, clothing and supplies for workmen, etc. And this is true of the capital which is invested in any and all securities.

Thus the offset of increased gold production and enlargement of credit facilities, although *first felt* in the money and credit markets, immediately passes *through* them and finds its more permanent manifestation in rising commodity prices.

Bond yields must rise (and bond prices fall) with any prolonged advance in commodity prices. The bond investor, through long habit, thinks of his interest return in terms of money; but when he starts to make use of that interest return, what it will buy for him depends upon the level of commodity prices. If commodity prices rise while his interest return remains stationary, he soon finds that his *real* income has shrunk. His money income must rise with advancing commodity prices, for exactly the same reason that the wages of labor must rise.

It is equally true that rising com-

modity prices reduce the supply of investment capital and thus raise its price—that is, the rate of interest return on securities. We have just seen that capital, as it accumulates, flows quickly through securities and into commodities; so when the prices of those commodities rise, they necessarily absorb more capital. In the example just mentioned above, if the prices of building materials and labor double, it will take twice as much capital to construct the government building.

The connection between bond yields, or the price of investment capital, and the level of commodity prices is therefore very much closer than has been generally appreciated. And this is even more evident from the record of history, as shown in these graphs, than it is from *a priori* reasoning.

In comparing the two graphs, we see at once that the graph of consols is, in a broad way, the reverse of the graph of commodity prices. Even in the irregularities of the Napoleonic Wars, which are only partly comparable with modern conditions, low consols and high commodities roughly coincided, and from about 1805 to 1896 the reverse correspondence is very plain. But the clearest demonstration of the principle is seen from 1896 to date, when a sudden turn in commodity prices was followed within two years by an equally sharp change in consols, with an almost perfect reverse correspondence in the two price-lines down to the present time.

Post-War Price Movements

It will be seen from these graphs that every war which had a direct and important effect upon business conditions in England was preceded or accompanied by a rise in commodity prices and a fall in consols, and that *after* every such war (except the Boer War) commodity prices fell and consols rose. Even following the Boer War the long upward movement of commodity prices then in progress was checked for half a dozen years, and the yield on consols for some years showed a reactionary tendency, though without any highly significant change.

Later graphs will show us that the same tendencies were strongly evident in the United States during and after the Civil War.

We are fairly safe, then, in concluding that this is a law of post-war price movements, which may be modified, but rarely, if ever, nullified, by other influences, and that there is now a very strong probability of a gradually declining tendency in English commodity prices and a rising tendency in consols and similar securities for some years to come.

(*To Be Continued*)

WISE SPENDING

THIS means spending preceded by thought to make certain that the purchaser gets his money's worth in commodity, comfort, service, recreation or advancement. It implies the balancing of all needs, present and future, and of the means of meeting these needs, and then spending in such a way as to meet the most urgent needs. In essence it is a sort of budget making. Wise spending sees to it that all the income is not spent on the first needs or desires lest other more urgent needs or desires appear. The determination of what is wise spending must rest with the individual, but he must be helped to overcome the temptation to satisfy present needs to the neglect of future needs. On the other hand, urgent necessities of today must not be neglected for the petty ones of tomorrow. Provision must be made for the rainy day and unforeseen emergencies, but economic stability implies also some capital with which to turn around, or to take advantage of opportunity.—U. S. TREASURY.

Economic Factors Affecting World Business

[The following notes on current economic conditions were jotted down by an official of one of the leading New York banking houses for his own use, in order to clarify his ideas on a situation which is universally admitted to be decidedly mixed. Although his innate modesty prevents us from giving his name, his conclusions are well worthy of careful attention. They have a very direct and practical bearing on industrial and investment conditions.—EDITOR.]

Cost of Production

PRIOR to the war, American manufacturers in competition with European goods in foreign markets had to fight the lower wage scales prevailing in Europe. Their success was due largely to the mechanical efficiency and labor saving devices so characteristic of American manufacturing, together with the adoption of the principle that production in quantity lowers the cost of the units produced. Due to the exigencies of war, European countries have adopted and put into actual practise these very factors which have enabled American manufacturers to compete with the lower wage scales of Europe in the past

No matter what may have been the reason, today American workmen are reported to be enjoying a relatively higher scale of wages as compared to European labor than prior to the war. In other words, American manufacturers henceforth (unless there is a readjustment) will have to overcome a greater disadvantage in the matter of cost of labor and may enjoy a less advantage than formerly held in respect to manufacturing efficiency and costs.

Wages

Wages will be affected by—

a. The casualties during the war.
b. Demobilization of the armies.
c. Demand for the products of labor.
d. Emigration and immigration.
e. Increased efficiency of individuals due to the stimulus of war.
f. Unionism, Socialism and Bolshevism.

Although the casualties during the war are estimated in excess of 15,000,000, the actual loss due to death or total disability, probably does not exceed 7,000,000. When the casualties are compared with the total effective man-power of the world, the net loss is relatively small. Of course the United States suffered much less in this respect than the other nations.

As offsetting the loss in man-power we must consider the additon to the effective man-power of the world of large numbers of women who have entered industrial pursuits and the addition of many boys who have become economic producers at an earlier date than usual.

Also, we must realize that the war stimulated the efforts of those engaged in war pursuits. In other words, in peace times the peoples of the world may have been exerting 25% of their potential economic productivity, whereas, under the stimulus of war, this may have been increased to say 35 or 50%. Naturally, the countries suffering actual invasion of their territory and heavy casualties and in close proximity to the area of conflict, were stimulated to a greater extent than those peoples distantly located, though participating in the conflict.

Going further, there may be a question whether or not the neutral countries have been adversely affected in this respect since the large war orders were accompanied by great prosperity which tended to indulgence in luxuries coincident with increased production. The United States was out of the war for about three years and although its active participation in the war during the closing year may have completely effaced any enervating influences of the period of great prosperity enjoyed as a neutral, we may lack the advantages which England and France now enjoy because of their longer and closer participation in the struggle.

The demobilization of the armies will have important effect. It is estimated that over 20,000,000 of men

will be released during the next few years from military duty, while there are upwards of 30,000,000 men and women to be released from production of war materials. The exact statistics for the various countries are not available but they must be considered in relation to population and in this respect it would be seen that the United States would have a relatively simpler problem than the Allies.

Increased mobility of labor may result from—

a. Experience of being transported as troops from place to place.
b. The destruction of homes in the devasted areas.
c. The breaking up of families during the war.
d. The desire to leave the war ridden countries.
e. The prospects of heavy taxation to pay the war debts.

All these factors will have important bearing upon the problem of emigration from Europe, whereas the desire of many Americans to return in search of their relatives will influence the emigration from this country. There has been much talk of the passing of laws preventing the people from leaving the European countries as the governments may want to keep them at home to help pay the taxes and to supply effective man-power so necessary to the economic rehabilitation of a country.

Gold

Aside from the question of the payment of an indemnity by Germany partly in the form of gold, the only source for a nation to increase its stock of gold will be through establishing a credit balance of trade in the world's markets and requiring payment in gold rather than by establishing credits. America, holding about 30% of the world's stock of gold, will be an object for more than the covetous glances of the rest of the world.

Paying the War Debt

As a result of the war, the outstanding funded debt of the countries has been vastly expanded as per the following statement of external and internal debt now outstanding compared with the pre-war status, showing the relative debt and interest charges per capita.

Obviously, these conditions mean increased taxation in those countries where the interest charges and principal of the debt is to be paid. Of course, there may be a default on the obligations of the defeated nations and it is impossible to forecast the outcome in Russia. The repayment of loans held within a country merely represents the collection of taxes from the various sources and the payment of the proceeds to other residents of the country holding the security.

In connection with internal and external loans, reference must be made to several special features which will have a bearing on the future. In connection with the flotation of these loans, great educational campaigns were conducted by the respective governments. Doubtless in some countries the lessons will have more lasting effects than in others. In some countries we may expect the lessons in thrift to result in sustaining great efforts on the part of the people to produce a surplus and to accumulate and invest it wisely. In other countries, although the saluatory influence of these lessons in thrift will continue to have marked influence on many people, the ability to dispose of securities in the open market for cash, and the repayment of the loans in cash, will have a deleterious effect upon many persons. Some people indulge in extravagances and luxuries. Even now, we may note these influences in our own country.

The payment of the vast external loans of some of the warring countries is a difficult problem. The mere raising of taxes on a people within one country, does not affect the payment of interest or principal on the bonds of that country held in another country. The problem of international exchange is involved in such a transaction. A country wishing to make the payment must have an international credit balance of trade, which would enable it to transfer the payments to the payee country.

This will be an important problem in connection with the payment of the principal and interest on the $10,000,000,000 owed by Europe to America. Prior to the war, America usually enjoyed a credit balance of trade, and during the war, this situation has been further accentuated by the greatly increased exports from America. If these debts to us are ultimately liquidiated, it would appear that the countries wishing to make the payments would have to obtain a net credit balance in the world's markets, at least as respecting other countries through which the United States could accept payment.

The Trade Balance

Prior to the war, the visible balances of trade among the nations of the world had well recognized characteristics, although the invisible balances of trade must have equalized these balances. We can look for an entirely new statement of visible and invisible balances of trade after the war.

Without attempting to make a guess as to these probable balances, it is proper to point out that the factors affecting the demand for goods, the ability to produce goods, the ability to finance trade, etc., have been so completely upset by the war, that it would seem reasonable to expect revision of the pre-war status.

If any country should have an unfavorable net balance of visible and invisible trade in the after-the-war-period, we must recognize that it can be settled by only three means, namely: (1) increasing of the export of goods from the debtor country; (2) the arranging of credits which in a sense means the shipment of credits to the payee; (3) shipment of gold.

Herein lies a great economic corrector, as the net balance of visible and invisible trade cannot continually run against a country without draining its gold, and when gold flows out of a country, its credit structure must soon be contracted, which in turn produces a readjustment downwards of prices of goods within that country making it eventually a favorable market to buy in and thereby correcting its balance of trade.

Indemnity

Another factor will be the payment of and receipt of an indemnity. History shows that the payment of an indemnity by France did not have as serious effect upon her trade, internal or external, as the receipt of the indemnity by Germany. The latter suffered great inflation of prices, thereby becoming an unfavorable market to buy in and a favorable market for other countries to sell in, which for a time seriously affected her balances of trade. In fact, many economists look upon the payment of an indemnity as having a more unfavorable effect on the payee than on the payer.

An indemnity can be settled in four ways:

1. The shipment of gold.
2. The transfer of credits.
3. The transfer of securities.
4. The transfer of physical property.

We must not lose sight of the fact that the question of the actual collection of an indemnity may have a far reaching effect upon all the nations of the world, particularly upon ourselves.

Credit Expansion vs. Deflation

We know that the ability of a country to extend credits in foreign countries to enable the buyers to pay for the goods is usually a determining factor in obtaining business. In some cases these credits need only be for a short time, but usually long-term credits are required.

The United States may have a sounder basis for further expansion of credit than the European countries, but we must not overlook the fact that American bankers have not had much experience in modern international banking methods, and a new crop of bankers cannot be matured in a few years. American bankers must learn to think internationally, to become thoroughly acquainted with foreign banking theory and practice and develop skill and tact in handling the financing of foreign trade.

In speaking of the possibility of further expansion of credits, we must also consider the possibility of a period of deflation, at least in some countries. War is always accompanied by a period of expansion of circulating media, and credit usually developing into inflation. In this war some countries have had expansion and other inflation, and some have gone so far as to be in a position bordering upon acutal bankruptcy because of unsound banking practice.

Under the law of action and reaction it would appear that peace following a period of inflation would be accompanied by a period of contraction. Just as inflation has upset prices throughout the world, a period of contraction, although confined to certain countries, could not but upset the price equilibrium throughout the world and have an important bearing upon the course of trade.

Peace Treaty

Another factor will be the readjustment of boundaries incidental to the terms of peace as finally concluded. The acquisition of Alsace-Lorraine by France is one item destined to have an important economic bearing on the future of France and the business of the world.

When we consider that Alsace produced 35% of the oil and 45% of the potash produced in the German Empire, and Lorraine produced nearly one-half of the iron ore and a large part of the finished iron and steel products of Germany prior to the war, we must realize that the transfer of such a rich territory to France is not only an important matter both to France and Germany, but to the rest of the world. The readjustment of the German colonial possessions, other changes in boundaries, the abrogation of old trade treaties, new treaties containing new trade restrictions and possible "favored nation clauses," and other arrangements and agreements which will doubtless be embodied in the peace terms, are destined to have a far-reaching effect.

Productive Capacity

The enlarged productive capacity of plants in many lines of industry gives rise to new competitive conditions.

The fact that a country may have a larger capacity for producing goods than it had prior to the war does not necessarily mean that the increased capacity will find an outlet.

The fact that there is a great surplus productive capacity in particular lines of industry as a result of the war will doubtless lead to severe competition in these lines. For example, the steel industry has been particularly stimulated by war and the capacity of the steel mills in the various countries greatly increased.

In the United States the steel productive capacity has increased from approximately 27,000,000 tons to 54,000,000 tons, and no one believes that the growth of the domestic demand for these products in peace times will supply an outlet to occupy the enlarged capacity. We all look forward to outlets in foreign markets, but we must consider the fact that European nations have similar or greater increases in the capacity of their steel mills and will be in a similar position to ourselves seeking foreign outlets.

Possibly the productive capacity of the world is in excess of the present ability of the world to consume and pay for steel products. Not only must we expect to feel competition in foreign markets for steel and other products, but we must contemplate the possibility of invasion of our own markets by foreign producers.

Reconstruction and Peace Business

The demand for goods and labor incidental in the reconstruction of the devastated areas must be considered, and the accumulation of peace business.

During the war we heard a great deal about the devastation of Belgium and France and the tremendous demands which America would be called upon to satisfy after the war in the form of materials and labor for reconstruction. We not only hear less of this talk, but many able business men who have studied the matter on the ground report that France will be rebuilt with French materials and labor.

The Financial Management of Your Business

Article No. 1—Budgeting Business Profits

PARK MATHEWSON, Expert on Applying Budgets to Business

In a series of five articles, Mr. Park Mathewson, who for years has studied the pitfalls as well as successful methods in connection with executive and financial business management, will present to our readers practical and profitable suggestions for applications to the problems in the world of trade. The titles of these articles are as follows: 1—Budgeting Business Profits. 2—Earning Profits from the Payroll. 3—Acceptances as an Aid to Capital and Surplus. 4—Pensions, Profit-Sharing and Stock for Workers. 5—Price Maintenance; its Benefits and Drawbacks. These articles will form an invaluable series for bankers, business men and investors.—Editor.

THERE are so many pregnant plans for meeting the needs of reconstruction that to comprehend fully their meaning and power for good or ill, they must be considered separately before assignment to the different divisions of the problem of building our world anew. This rebuilding has, besides the physical aspects, others less tangible, including a mental attitude which perceives inefficiency or imperfection of outgrown methods and demands a change.

One of the liveliest modern methods that any manufacturer or merchant can consider is that of budgeting his business, as a part of his reconstruction program, and the benefits he may derive therefrom.

Practically every man in business more or less systematically "figures out" his business for the coming year; he sets his "budget quota," or what he expects to produce; his "expense budget," or what he estimates things will cost to produce, market and administer; and his "capital" or "cash budget," covering his income and outgo from his business and how he proposes to finance it.

Where it is conceded that the principle of the budget is beneficial to business in general, it would seem a short step to adapt it into any individual business, as by merely co-ordinating in budget form the routine facts and figures, which any well-regulated business produces, is all that is necessary to budget it, and no radical change of methods or even little detail is necessary.

Some Cardinal Principles

It will be well to examine a few cardinal principles and practical plans of the most approved present-day budgets; to ascertain whether they cannot help the forelooking captains of industry in working out to greater success their business reconstruction campaigns.

The tables, forms and charts from a going business herewith reproduced will best illustrate some of the terms, divisions and results in certain phases of these simple principles of fore-determination, co-operation and check-ups, as applied by a business budget.

The industrial units consist of the following divisions: the production (which in a jobbing or non-manufacturing company is the buying division), marketing (including selling and advertising) and administrative (including executive, treasury and all activities not under the other two divisions). Each division must have its budget of objectives or "quota budget," its budget of what it will use in its campaign, or "expense budget," and finally its budget of where these "sinews of war" will come from in its "capital" or "cash budget."

PRODUCTION QUOTAS SUMMARY - 1919

Bringing together all division quotas for general manager
Based on a proposed business of $800,000
Working Figures for graphic chart for General Manager

	Production						Marketing						Administrative											
	Units			Dollars			Units			Dollars			Units			Units			Units			Units		
	Proposed	Actual	%	Proposed	Actual	%	Proposed	Actual	%	Proposed	Actual	%	Proposed	Actual	%	Proposed	Actual	%	Proposed	Actual	%	Proposed	Actual	%
January	25000	24200	97	75000	72600	97	18350	17500	95	55590	52500	95	1088	942	86	2184	2075	95						
February	25000	24900	99	75000	74700	99	19600	18450	94	58800	55350	94	1513	1410	92	3022	3115	103						
March	25000	26100	196 104	75000	78300	196 104	22776	21600	189 95	68310	64800	189 95	1774	1805	178 101+	3542	3604	198 101+						
April	25000	25000	300 100	75000	75000	300 100	18700	18000	284 96	56100	54000	284 96	1383	1192	277 86	2762	2610	299 94						
May	25000		400	75000		400	14700		380	44310		380	1277		365	2554		393						
June	25000			75000			12690			38070			1589			3178								
July	25000			75000			10210			30630			1170			2340								
August	25000			75000			24080			72240			3178			6357								
September	25000			75000			30290			90870			3770			7540								
October	25000			75000			33280			99840			3893			7887								
November	25000			75000			34170			102360			3022			6045								
December	25000			75000			27630			82890			2343			3682								
Totals	300000			900000			266676			800010			26000			51093								

The units used in this budget, besides the gross in dollars, are varied and should be those most illustrative of the particular business. Often to get a true perspective it is necessary to show results in several ways, such as units, orders and dollars. In this case 12-1/2% more is manufactured than sold in order to accumulate a surplus for stock.

Although each division has its own plans and objectives, it must not be overlooked that these have been carefully worked out by the high command in such fashion that they co-operate with each division in the slightest detail as to the results desired and required for the winning of the great campaign. Each division commander must then exactly reach his objectives (each month), failing which, a proper realignment must at once be made.

Budgeting Proposed Sales

As all budget figures must have a common basis upon which their computations are made and as all activities depend upon the gross sales or business done, the first figures to budget are the proposed sales for the coming period and those figures are the ones first worked out by the business budget conference.

It is obvious that if the billings to be achieved amount to $1,000,000, the same amount of goods must be produced, marketed and administered and the quota, expense and capital budgets would naturally be in proportion to such business done.

The master-budget forms illustrated are arranged to contain all necessary fundamental or illustrative figures, and to show two things: (1) the proposed or budgeted figures in full for the entire term of the budget (usually 12 months); and (2) the actual results achieved to date by each division and, preferably, also their per cent of the corresponding budgeted figures. Corresponding figures for the past year or an average of several years may also be shown, but are not in any way essential to the complete comparison and analysis of current results.

Whether a budget is a sub-budget or master budget (gathering together and showing the results of the sub-budgets), the same general plans and divisions are followed and the same three main divisions—production, marketing and administrative—remain the same, and only the sub-headings or the sub-divisions of the business are altered according to the needs of the particular business being budgeted. The budget forms herewith reproduced are the final forms in which are embodied all the data included in the sub-budgets, which in turn cover each division or department, and are prepared to suit the particular business and department covered.

The first estimates prepared by the three divisions are adjusted and combined in the production quotas summary, as illustrated.

The second, and possibly the most vital of the three budgets, is the expense budget, "the meat in the cocoanut" of any business, as representing the cost to operate and the resulting promises of profits or loss on each dollar of business done.

The cents or fraction of a cent of each sales dollar which each important operation or department will cost should be very carefully figured for the unit or first operation to be budgeted, up through the various expense sub-budgets until they appear in the expense budget summary. It sometimes takes several days of intensive figuring and conference by all divisions before an equitable and final adjustment of expense or per cent of sales dollars is agreed upon and allotted to each division. (See table.)

Thereafter the heads of all divisions and sub-divisions must carefully watch and adjust the results to get the closest possible accord between actual and budgeted figures each month, as gathered in the expense budget summary in the hands of the chief executive. (See figure.)

Capital Budget

Last but not least in importance, not only to the treasury department, but to the business as a whole, is the financial forecast or capital budget. Its function is to obtain from each division and bring them together for the finance department, the proposed expenditures in *cash* in any month; then by taking the average terms or (if cash or trade acceptance terms are not employed) the average time it takes to collect, the proposed cash to be received from business done, can be quite accurately ascertained and will show the difference between the cash to be received and disbursed in each month. It is then possible to handle finances in a forehanded manner resulting in great benefit to every division of the business. (See capital budget summary.)

EXPENSE BUDGET SUMMARY - 1919.

Bringing together all division quotas for Executives. (Based on a proposed total business of $800,000.00)

Months.	PRODUCTION				MARKETING				ADMINISTRATIVE				INT. & DISC.				TOTAL EXPENSES				
	Proposed	Actual	%	Previous Year.	Proposed	Actual	%	Previous Year.	Proposed	Actual	%	Previous Year.	Proposed	Actual	%	Previous Year.	Proposed	Actual	%	Previous Year.	
Jan.	27840	26862	96	20425	21693	21400	98	19250	7160	7050	98	5370	745	740	99	650	57438	56052	97	45695	
Feb.	27840	27640	99	21550	22250	22455	101	18400	7325	7500	102	6295	700	659	94	600	58115	58254	101	46845	
Mar.	27840	28972	104	22410	23350	23110	98	19100	7500	7510	100+	6520	725	742	102	617	59415	60334	103	48647	
Apl.	27840	27840	100	21800	22650	20575	90	17170	7375	7160	97	6425	790	764	97	611	58655	56339	96	46106	
May	27840			22500	16500				7350				824				52514				
June	27840			20100	14950				8275				950				52015				
July	27840			23100	13225				7370				816				49251				
Aug.	27840			23220	24660				7950				890				61340				
Sept.	27840			24150	25500				8240				925				62505				
Oct.	27840			22500	31200				8350				800				68190				
Nov.	27840			21750	32500				8250				890				69480				
Dec.	27840			22575	23842				8455				1085				61222				
Totals	334080			265580	272324				93600				10240				710240				

This most important business thermometer will quickly show if "expense" from actual operations shows a gross increase of any considerable figure, in which case radical action must be considered and if necessary, taken without delay, until the various members of the business body are functioning in full accord.

From this bird's-eye view of the method of handling a business budget and its principles and procedure the following definition of the budget may be illuminating:

"The object of the present day business budget is merely so carefully to gather and co-ordinate the various plans, estimates or forecasts now "carried in the head" or in the books of the business man, that the most exact, complete and successful plans for the firm may be made for as long in advance as possible.

"By handling the everyday records of details as a systematic whole, the most exact plans can be arrived at and may be easily checked up periodically, monthly or even weekly, to ascertain whether each and every department is reaching or exceeding the goal set, so that each department may be in a position logically to take steps to adjust any difference immediately, rather than when conditions become so apparently unsatisfactory as to force themselves to the special attention of those at the head of the organization."

What business man would not be glad to accomplish to the highest degree the foregoing results? If by studying and applying budget plans to their business they can accomplish this for their records and organizations, few indeed will be found not to consider such an effort worth its cost.

Basis for Capital and Loans

In addition to the direct benefit to the manufacturer or merchant in his own operations and profits, it will form an important basis on which he can accurately and forehandedly base his estimate of capital and loans needed. It is a well-known fact that by knowing when and how much must be borrowed and carefully arranging your balances and credits with the banks, in advance, that much more satisfactory arrangements and line of credit can be obtained from the bank.

The carefully handled budget will assist not only in the borrowing, but can be used to equal advantage in arranging plans for adequate funds in plenty of time to take care of all such loans when they come due.

TYPICAL BUDGET DIVISIONS OF A SALES DOLLAR
VARIOUS DIVISIONS AND SUB-DIVISIONS OF A BUSINESS

Main Divisions		Sub-Divisions		Further Sub-Divisions	
Production	.4176	Material	.1713	Raw Material	.0621
				Fin. Material	.1092
		Productive	.1921	Factory	.1508
				Repair Shop	.0413
		Repairs	.0300	Expenses	.0192
				Salary	.0108
		Overhead	.0242	Expenses	.0132
				Salary	.0110
Marketing	.3404	Selling	.1168	Travelers	.0935
				Salesmen	.0233
		Commission	.0342	Travelers	.0221
				Brokers	.0121
		Advertising	.1364	Space	.1201
				Printed Matter	.0163
		Shipping	.0278	Labor	.0166
				Material	.0112
		Overhead	.0252	Expenses	.0136
				Salaries	.0116
Administrative	.1298	Office Exp.	.0584	Expenses	.0102
				Salaries	.0482
		Ex. Expense	.0350	Active	.0249
				Supervising	.0101
		Int. & Dis.	.0128	Current	.0110
				Fixed	.0018
		Dep. & Losses	.0236	Dep.	.0185
				Losses	.0051
Net Profit	.1122		.1122		.1122
Sales Dollar	$1.00	Total	$1.00	Total	$1.00

CAPITAL BUDGET SUMMARY - 1919.

(Based on a proposed total business of $800,000.00)

Important: Enter figures in MONTH that Cash will be needed or payable.

CASH RECEIVED.

MONTHS	BILLINGS (when due) Proposed	Actual	%	Previous Year	LOANS FROM BANKS (and others) Proposed	Actual	%	Previous Year	SALES OF SECURITIES Proposed	Actual	%	Previous Year
Jan.	110900	110800	99	71500								
Feb.	93240	92900	99	68700								
Mar.	80100	81500	101	81000	18000	18000	100		100000	97500	97	
Apl.	82200	81900	99	61600								
May.	71400				5000							
June	62900				17000							
July	41500											
Aug.	66360											
Sept.	56500				19000							
Oct.	64700											
Nov.	48100				28000							
Dec.	60300											
Totals	800000				80000				100000			

MONTHS	OTHER SOURCES Proposed	Actual	%	Previous Year	CASH SURPLUS Forward Proposed	Actual	%	Previous Year	Proposed	Actual	%	Previous Year
Jan.					57100	57100	100	31250				
Feb.	7500	7000	93									
Mar.												
Apl.												
May.	3000											
June												
July												
Aug.												
Sept.	2500											
Oct.	1000											
Nov.												
Dec.												
Totals	14000				57100	57100	100	31250				

MONTHS	Proposed	Actual	%	Previous Year	TOTAL RECEIPTS Proposed	Actual	%	Previous Year	Surplus of Receipts over Disbursements. Proposed	Actual	%	Previous Year
Jan.					168000	167900	99		105560	106860		
Feb.					96340	92900	99		7626	6646		
Mar.					201100	200500	101		[illegible]	[illegible]		
Apl.					82200	81900	99		[illegible]	[illegible]		
May.					79400							
June					79800							
July					41500							
Aug.					68860							
Sept.					70000							
Oct.					65900							
Nov.					77100							
Dec.					60300							
Totals					948600							

CASH DISBURSED.

MONTHS	PRODUCTION Proposed	Actual	%	Previous Year	MARKETING Proposed	Actual	%	Previous Year	ADMINISTRATION Proposed	Actual	%	Previous Year
Jan.	27840	26462	96	20800	21698	21400	98	10250	7160	7050	98	5870
Feb.	27840	27640	99	21550	22250	22405	101	11800	7325	7500	102	6285
Mar.	27840	28070	101	22410	23350	23110	99	14100	7500	7510	99	6520
Apl.	27840	27840	100	21500	23650	22675	96	17170	7375	7160	97	6476
May	27840			22500	16500				7350			
June	27840			20100	14650				6975			
July	27840			20100	18905				7830			
Aug.	27840			22900	24660				7950			
Sept.	27840			24150	26500				8060			
Oct.	27840			22500	31200				8350			
Nov.	27840			21750	29500				8450			
Dec.	27840			22575	29842				8455			
Totals	334080			265570	279300				93600			

MONTHS	LOANS PAYABLE Proposed	Actual	%	Previous Year	INTEREST AND DISCOUNT Proposed	Actual	%	Previous Year	OTHER EXPENSES Proposed	Actual	%	Previous Year
Jan.					745	740	99	650				
Feb.					700	659	94	600				
Mar.	20000	20000	100		725	742	102	617				
Apl.					780	754	97	611				
May					800				50000			
June	18000				900				40000			
July					816							
Aug.	5000				850							
Sept.	17000				905							
Oct.					800							
Nov.					860							
Dec.	10000				1085							
Totals	80000				10240				90000			

MONTHS	Proposed	Actual	%	Previous Year	TOTAL DISBURSEMENTS Proposed	Actual	%	Previous Year	Surplus of Disbursements over Receipts. Proposed	Actual	%	Previous Year
Jan.					57438	56650	99	48260				
Feb.					58115	58250	101	46585				
Mar.					59415	60580	102	48647				
Apl.					61655	58880	96	46106				
May					102510							
June					130010							
July					49380							
Aug.					64860							
Sept.					79600							
Oct.					68100							
Nov.					66980							
Dec.					71333							
Totals					890010							

This budget shows the important cash facts of the business, how and when the cash is received and how and when disbursed. If balance shows in "Surplus Receipts" column it should be on hand to pay out; if in "Surplus Disbursements" column it must be borrowed or obtained in some other way to cover shortage of cash for that month.

Leading Opinions

About Financial, Investment, Banking and Business Conditions

Glass and Gary Optimistic

In opening the meeting of 150 iron and steel men, who met at the Waldorf-Astoria in New York recently, for the purpose of considering plans to co-operate with the Government and stabilize the industries of the country, Judge E. S. Gary, chairman of the Board of the U. S. Steel Corporation, took an optimistic view, tinged with conservatism. Among other things he said:

"There is ahead of us large business prosperity. We may hasten or retard its progress, depending upon our attitude. If we avail ourselves of the opportunities offered we will succeed. We must be resolute, fairminded and confident. We must apply the spirit of co-operation whenever practicable. We must have faith in ourselves, in each other and in our country. Peace has not yet been established throughout the world, and this fact more or less adversely affects industry."

N. Y. *Globe*

EVEN AS YOU AND I

In speaking of the conditions in the industry, Judge Gary said: "It is my opinion, and I believe the opinion of most of the large number of men who are assembled here today, that since the armistice was signed the iron and steel trade, generally speaking, has been better than it was represented to be in some of the publications; that it has been better than we feared it would be; that all things considered we have no reason to complain, and that the number of unemployed has been less than one would suppose from some of the statements which have been freely circulated.

"Personally, I have believed if business men and others who are interested in business conditions and results would retain their composure and courage we would gradually, if moderately, return to a condition normal and satisfactorily."

"We have a great future immediately at hand—prosperity is before us, and we cannot afford to stand back," Secretary of the Treasury Glass told the Reconstruction Conference of Governors and Mayors, in the East Room of the White House.

"The Government is intensely desirous of seeing formulated a certain policy that business may follow—the Government wants to see business go forward," the Secretary added, urging that some definite policy come out of the three-day conference.

Babson Urges Govt. Publicity Campaign

The Government should inaugurate a nation-wide publicity campaign to stimulate buying, Roger W. Babson declared in an address before the Conference of Governors and Mayors held at the White House to consider labor and business problems. In part, he said:

"I personally am in favor of the Government getting behind a nation-wide publicity campaign to stimulate business for the mutual benefit of manufacturers, merchants and wage workers. Only by such national newspaper advertising could justice be done to every state and every city. The entire cost of such a campaign could be covered by contributions from the industries of the country in the same manner as the cost of the publicity for the Liberty Loan was taken care of without expense to the Government.

"The buyer should be appealed to, not by asking him to buy something that he does not need, but by asking him to buy now what he does need. It could be explained that a buyer who follows a waiting policy not only injures the business of his fellow men, but tends to bring about a business depression from which he ultimately will himself greatly suffer. The manufacturer can be appealed to to do all in his power to adjust prices as quickly as possible to a reasonable basis. Where feasible, the manufacturer should be urged to guarantee the merchant that, should the manufacturer's price for the commodity be reduced within a given time, the merchant will be protected by a rebate. Finally, labor should be appealed to to help in the campaign by doing better work, and by co-operating to reduce the cost of manufacturing."

"Railroad Position Serious"—Samuel Rea

Samuel Rea, president of the Pennsylvania Railroad Company, regards the failure of Congress to pass the $750,000,000 appropriation for the railroad revolving fund as serious. In a statement he said:

"I urged the passage of the $750,000,000 appropriation recommended by the Railroad Administration, and deeply regret it has failed, because it leaves the railroad situation in a state of confusion, and may mean the immediate stoppage of a large amount of construction now in progress.

"The situation, however, is so serious that I suppose some relief plan will be devised and promptly adopted. Otherwise it is difficult to see how the operation of the railroads can be continued for any length of time. This failure to secure needed money falls hard on many companies in Pennsylvania and other states which furnish fuel, materials, and other supplies to the railroads, and which depend to a large extent upon railroad orders."

"Prices Must Come Down"—Selfridge

H. Gordon Selfridge, the head of Selfridge & Co., Ltd., writes to the *Philadelphia News Bureau* from London as follows:

"You ask regarding the business outlook in England and Europe. It seems to us, who try to do things quickly, that it is taking longer than well directed energy should take to get things back into after-the-war normal conditions.

"There is still a wide difference of opinion as to the prices that merchandise should and must bring during the coming months. I, personally, cannot see how prices shall be maintained at their present rates because the enormous numbers of manufacturers, who heretofore have been on war work exclusively, are now free for civil requirements.

"We believe that the future holds in it, to those who try to work, as good opportunities to do and to build commercially and in other ways as ever.

"The whole world is in a most unusual condition and there is a certain amount of rocking the boat going on everywhere. I cannot help thinking that the rocking will be less severe and dangerous here than in most other countries."

George E. Roberts Explains H. C. of L.

There is no mystery about the rise of the cost of living, writes George E. Roberts, assistant to the president of the National City Bank of New York, in *The Financier*. From the beginning of settlement in this country we have been exploiting the natural resources of a continent, a wealth of soil, of minerals and timber that had been in preparation for thousands of years. They had almost no value to the first settlers—they were free as air to the early comers, but in an incredibly short space of time population has spread over the continent until everything but air and sunshine has a price upon it. There has never been a parallel to the settlement of this country, and there never will be again, because there is no other country like it to be settled.

And the population of the whole world has been increasing. Even the war will make but slight impression upon it. The British Isles have sent millions to this country, but they have several times as many as they had when emigration began. Germany has sent millions and gained many millions more. They have

N. Y. *World*

MERCIFUL QUARTERLY PAYMENTS

come from Scandinavia and Austria, Italy and all lands, and without any diminution of the number at home.

They have all got to be fed and clothed and housed, and the cost of food and clothing and shelter depends upon the land and the supply of natural products. The area of land is limited, and the cheap supply of natural products is depleted.

COLORADO & SOUTHERN 1st PREFERRED DIVIDENDS

ON page 723 of our Feb. 15th issue the statement was made that only 2% dividends were paid on Colorado & Southern 1st preferred stock in the calendar year, 1918. This was an error. A 2% dividend was declared at the end of November and another 2% dividend in December, making the full 4% for the year.

BONDS AND INVESTMENTS

Income Bonds of Merit

A Compromise Form of Security—Some Attractive Issues For Business Men, Having High Yields and Good Prospects.

By JACOB H. SCHMUCKLER

AN income bond is a corporate security of a hybrid character, partaking the nature of a bond and a preferred stock, but possessing all the merits and benefits of neither. There are about twenty-two bonds of this type outstanding. The greater part of which are railroad issues. With very few exceptions all of these have been issued in reorganizations chiefly to holders of junior mortgage bonds so as to still let them have bonds, and at the same time lighten the burden of too heavy interest charges upon the property. They are thus a sort of "compromise security."

Characteristics

Interest need not be paid on these bonds unless earned, but the principal, like that of any other type of bond, is payable at a definite date. In a number of cases, as for example, in the Seaboard Air Line 5s, the St. Louis & San Francisco Adjustment 6s, and the Hudson and Manhattan Adjustment 5s, the interest is cumulative, but in the majority of issues interest payments do not accumulate against future earnings, and the interest once passed is gone.

Again, despite the fact the income bondholders assume only a slight smaller risk than preferred stockholders, in no case are they given the immediate right to vote. In a few issues, practically only two New York traction securities, the voting power is contingent upon whether the holders receive the full stipulated return in certain consecutive periods. The mortgage of the Third Avenue adjustments provides that until full interest of 5% per annum, together with accumulations shall have been paid for five successive years, holders of these bonds have the right to vote at each stockholders' meeting, and to cast one vote in respect of each $100 face value of bonds held. In the case of the New York Railway adjustment 5s, a majority of these bonds have the power to elect one less than a majority of the board of directors, until the full 5% has been paid for three successive years, and again thereafter, during a like period, whenever failure to pay such annual interest shall have occurred. During such periods also the bondholders shall have equal voting power with the stockholders to the extent of one vote for each $100 face value of bonds held.

A characteristic of income bonds which is very usual is that they are secured by a mortgage upon some property, though in most cases the lien is of a very junior nature. In only one bond, the Rio Grande & Eagle Pass first income 5s (1929) is the issue a first mortgage upon the property pledged. But assuming even that income bonds were a senior lien upon valuable property, if the interest were not paid income bond holders could not foreclose to protect themselves, for interest need be paid only when earned. About the only way for the bondholder to get any satisfaction from directors whom he believes are not treating him fairly is to bring his case into court. The holders of issues whose interest is cumulative and which carry voting power, are of course in a better position than those holding non-cumulative and non-voting bonds.

Some Attractive Issues

From the above discussion, it is clear that the income bond as an instrument of corporation financing, has rather serious objections, arising chiefly out of its hybrid character. However, the issues

outstanding contain a few attractive purchases, especially for investors who are in a position to assume some risk for large income return and good future prospects.

A complete list of income bonds with amounts outstanding and current prices, so far as they are obtainable, is given in the subjoined table. Under the rules of the New York Stock Exchange, income bonds are generally quoted "flat," that is, the purchaser does not have to add the secured interest to the price quoted. All other types of bonds in good standing, are quoted "and interest," that is, the purchaser has to add accrued interest to the price. However, a number of income bonds whose interest has been paid regularly for some time, as, for example, the Atchison 4s and the St. Louis Southwestern 4s, are also quoted "and interest." The rates of return are not given, as a number of issues do not yield any income.

For seven of the bonds given above, no quotations of significance to the reader can be obtained. With the exception of the Florida East Coast 5s, a $25,000,000 issue, all of which is held by the estate of Henry Flagler. These bonds have been put out in very limited amounts and have virtually no general market. The outstanding amount of the three classes of Central of Georgia preference income is only $298,350, and the issues are, therefore, not of much interest marketwise. But they are of considerable significance historically, since it was the suits brought by their holders against the railroad company that pointed out very clearly the inherent difficulties of the income bond.

Issues Discussed

ATCHISON, TOPEKA & SANTA FE'S ADJUSTMENT 4s are high grade and better secured than a very large part of the so-called mortgage bonds outstanding. Interest charges are very strongly protected, the company showing large enough earnings to pay 5% dividends on a preferred stock issue of $124,123,700 and 6% on $220,445,500 of common for a number of years. The bonds are additionally secured by junior liens on various parts of the company's mileage and some of its securities. At 78½, or even somewhat higher, the bond is an attractive investment for income return and should see higher prices in a more normal bond market. At its present price of 78½ it yields about 5.15%.

COMPLETE LIST OF INCOME BONDS

Issue	Maturity	Out-standing	Price About
Railroad—			
Atchison adjustment 4s	1995	$51,346,000	78½
New Orleans, Texas & Mexico income 5s	1935	15,158,000	57
Frisco adjustment 6s	1955	38,739,418	68⅝
Frisco income 6s	1960	35,192,000	43½
Seaboard adjustment 5s	1949	25,000,000	48¾
Denver & Rio Grande adjustment 7s	1932	10,000,000	55
St. Louis Southwestern 2nd income 4s	1989	3,042,500	58½
Texas & Pacific second income 5s	2000	958,000	45
N. Y., Phil. & Nor. income 4s	1939	784,000	86
Florida East Coast income 5s	1959	25,000,000	..
Rio Grande & Eagle Pass 1st income 5s	1929	422,000	..
Central of Georgia 1st, 2d and 3d preference incomes	1945	298,350	..
Oregon Short Line income 5s, Series A	1946	272,500	..
Oregon Short Line income 5s, Series B	1946	25,000	..
Public Utility—			
Hudson & Mass. adjustment 5s	1957	33,102,000	16½
N. Y. Railways adjustment 5s	1942	30,626,977	14
Third Avenue adjustment 5s	1960	22,536,000	30⅛
Chicago Railways ad. income 4s	1927	2,500,000	23½
United Railways & Electric income 4s	(a)	13,977,000	55
United Railways & Electric income 5s	1936	3,920,000	75½
Hudson Valley Ry. 1st income 5s	1951	700,000	..
Hudson Valley Ry. 2d income 2s	1951	2,500,000	..

(a) Callable at option of company after March 1, 1949.

NEW ORLEANS, TEXAS & MEXICO INCOME 5s are only fairly well secured, but around current prices offer a speculative investment with rather good possibilities. Of these bonds $15,000,000 were distributed under the plan of reorganization to holders of the old St. Louis & San Francisco and New Orleans, Texas & Mexico divisional 5s and 4½s and $158,000 to acquire the entire capital stock and bonds of the New Iberia & Northern Railroad and Iberia, St. Mary & Eastern Railroad. The property has been doing well since its separation from the old Frisco system, though of late earnings have been declining somewhat. Full interest charges were paid in 1917 and 1918 and are fairly well secured even at the present rate of earnings. An improvement in Mexican political and industrial conditions would of course prove of benefit to the road and it is probable that the international committee of bankers recently appointed to reorganize Mexican finances and to devise means to protect foreign investments there will aid to bring this condition about in the near future.

ST. LOUIS & SAN FRANCISCO ADJUSTMENT AND INCOME 6s were issued in the recent thorough reorganization of the property. The new company has been doing very well and earnings have been sufficient in the last two years or so to pay interest on both of the above issues with a fairly wide margin. The adjustments are the senior obligation of the two and the interest is cumulative, while that on the income bonds is non-cumulative. At 68½, and even a few points higher, the adjustments are a good purchase. The incomes are not so well secured as the adjustments, but around current prices of 43½ also offer good possibilities for the "long pull."

SEABOARD AIR LINE ADJUSTMENT INCOME 5s at the current market yield more than 10% on the money, indicating clearly that they involve some risk. Interest charges on these bonds are cumulative, have been paid at the full rate for some years and are farily well protected. For the investor who can afford to take a risk for future prospects, the issue is quite attractive.

ST. LOUIS SOUTHWESTERN 2ND INCOME 4s are protected by ample equities in both earnings and property. They are prior in lien to the consolidated 4s of 1932 and the first terminal and unifying 5s of 1952. At 58½ they yield nearly 7%, and are a satisfactory "business man's" investment. In a more normal bond market the issue should see higher prices.

NEW YORK TRACTIONS—The three New York traction issues are speculative and their possibilities depend almost entirely upon a radical improvement in the New York traction situation. For the "long pull" the Hudson & Manhattan 5s and the Third Avenue 5s, interest on both of which is cumulative, may prove satisfactory to those willing to make "specvestments," whose developments they are in a position to watch. However, it does not appear advisable to take on any substantial commitments in any of these three bonds until conditions for the New York tractions have taken a definite turn for the better.

SUGGESTIONS FOR THE INVESTOR

DON'T let your fears and the blue newspaper talk get the better of your judgment. Securities of the very best type go down with the others. If you know your company to be sound and well able to meet its debt, stick to your holdings.

* * *

Examine into the merits of an industrial security much more carefully than into a railroad security, no matter what banking house offers it. There are certain standards of measurement that fit railroad securities which make them more easily judged than industrials. The bankers themselves sometimes make serious mistakes in judging industrial bonds and stocks.

* * *

The securities of a holding company for a large group of public utility corporations are much more complicated investments than any one of the underlying securities. And because they are so complicated they often hold a great deal of risk.

Canadian Bonds

An Interesting Group of Securities Offering Good Possibilities

By J. H. SCOTT

CANADIAN obligations are a very interesting group of investments, and their outlook from the standpoint of investors, as well as future developments in Canadian financing with reference to the part American capital is to play in them, merit attention.

Canada is, of course, still a very young country. Like all such nations, its chief sources of income are in natural resources, manufacturing is not extensively developed, and it has to call upon outside countries to finance its capital requirements.

Canada's Banker

Examination of the statistics of Canada's total borrowings and loans in the United States, presented in Table I, shows that Uncle Sam became Canada's chief banker at about the outbreak of the European War, when the heavy drain upon Great Britain to finance herself and the Allies in connection with the war caused a cessation of the flow of English capital to Canada. The Dominion borrowings in the United States, which during 1911 amounted to only $17,553,967, or 6.5% of total Canadian loans, increased in 1916 to the high record of $205,676,682, or about 65% of the total.

TABLE I—CANADIAN BORROWING 1911-1918 (000's omitted)

	Total Canadian Loans	Loans in the U. S.	Percent in U. S.
1911.....	$266,813	$17,554	6.5
1912.....	272,938	30,933	11.3
1913.....	373,795	50,721	13.5
1914.....	272,935	53,945	19.7
1915.....	341,893	143,973	42.1
1916.....	316,917	205,677	64.8
1917.....	772,742	186,911	24.8
1918.....	856,984	100,956	12.7

In 1917 the amount declined, reflecting the restrictions on the offering of new securities imposed by the Capital Issues Committee at Washington to conserve all capital funds for investment in United States Government bonds and in securities of essential domestic industries.

The 1918 borrowings were almost half of the 1917 amount. The ban against Canadian loans was lifted on a few occasions during the year, the chief of which were to permit Canada to negotiate a private loan of $65,000,000 in the New York market and to take subscriptions to her second Victory Loan. The latter reached the high figure of $40,000,000. but upon allotment they were scaled down to $25,000,000. Then there were a number of lots of municipals and two corporation loans, $5,000,000 Canadian Northern Railway equipments, and $1,000,000 Toronto Railway notes offered in December.

A high authority estimates that United States capital investments in Canada at the end of 1918 were about $1,273,000,000, or more than twice the amount prior to the beginning of the European War. It is also significant to note that the total borrowings of Canada more than doubled in 1917 over 1916, and increased about 15% further in 1918.

Canada's Future Loans

The opinion is widely held that Canada will have to do considerable financing in the early future. This position finds strong corroboration in the fact that a good number of the loans floated by Canada during the war period were short term, and these will have to be refunded. In addition many needs arising out of reconstruction and the rapid expansion in Canada will have to be financed. A large number of improvements and works of construction which have been interrupted by the war will undoubtedly be resumed again when the men return from the war.

But questions naturally arise as to whether the Canadians will come to us for capital, whether their offerings will prove attractive to American investors, and finally as to whether competition for these issues by Canadian bankers will

leave the United States bankers any bonds to sell.

Present Market

The consensus of opinion on the present market in Canadians is that there is a keen demand for them, especially the better grade long term issues in the Canadian market. The market in this country is very quiet excepting for some of the higher yielding issues, and comparatively few offerings are being made here. It is stated that the bankers' shelves in Canada are bare of issues, and that the supply is not keeping up with the demand. The Dominion War Bonds are being keenly sought for by large investors as they are free of all income taxation, and 1918 rates of taxes in Canada, while not so heavy as in the United States, are quite large.

Two factors hinder the floating of large Canadian issues in the United States at present. These are the coming large Liberty Loan and the high rates of income taxation, for Canadian bonds are not accorded any special exemption in this country. The Liberty issue will, of course, be over by May, but the present high income taxes are to be with us for another year. After then rates will undoubtedly come down, but they will in all probability remain high for a few years.

Still, taking a broader view of the whole situation, the high taxes should not trouble the investor who buys long term issues for permanent holding. Considering the excellent security of the better grade Canadians and the strong probability that with more normal money market rates, prices will tend to approximate lower bases of credit, the high rates of return and the appreciation in principal should compensate the investor.

Another factor to be borne in mind is that Canadians are as a class now close to the bottom and they can hardly be expected to see such low prices again. In the case of the shorter maturities most of the issues are selling at substantial discounts and the profit through the rapid appreciation of the principal to par at maturity, coupled with the excellent security, are meritorious considerations to be balanced against a temporary diminished yield through income taxation.

As to the lower grade issues, most of these are obligations of western communities and yield generally 6% or higher. The financial methods of some of the far-western Canadian municipalities, which have been especially hard put during the war, have scarcely been very commendable, and investors who put their funds into a few of the more speculative of these have met with some temporary embarrassment. But conditions in this section of Canada have now, in our opinion, taken a turn for the better, and with things more normal, purchases of all Canadians should generally prove of advantage to investors.

There is no general market for Canadian issues in the United States, at any rate not in the sense of a market on the exchanges as we have for a large number of American obligations. Dealings, excepting in a few issues, are confined almost entirely to a few houses having Canadian connections, the American offices being either branches of Canadian houses or vice versa, and for all intents and purposes they constitute the market for Canadians. The market for most Canadian issues in Canada is, however, quite active, although most of the trading is done in what we would call "over-the-counter trade."

American Invasion Probable

One of the most significant recent developments in expanding the market for Canadian bonds and in strengthening the financial connections between the United States and Canada, was the establishment of an office at Montreal last month by the National City Co., Ltd. a subsidiary of the National City Co., of New York. It is stated that this is only one of many other connections that are to be formed by American houses, which are reputed to be preparing for a financial invasion to buy Canadian bonds and not to sell American securities.

Many are of the opinion that Canada's requirements for reconstruction will be too large to be satisfied by funds securable there, and that Americans will be looked for to push Canada's progress. At any rate, our investment banking interests are apparently anxious for Canadian obligations, and when bankers are preparing to meet competition to get bonds

in such a market as the present, there clearly must be something in them.

One authority states that "Canada offers certain advantages which cannot be fully matched in the United States." At any rate, Canadian issues are as a class very attractive, and the objection so often made as to absence of an active market for them in the United States should be remedied by the establishment of larger and more intimate connections between the Canadian and American banking communities.

Attractive Issues

A list of attractive bonds with prices at New York and approximate rates of return is presented in Table II. As the trade balance against Canada has been very large in the last few years, owing chiefly to Canada's providing for part of Great Britain's indebtedness in this market, New York funds in Canada now command about a 2% premium, and quotations in New York are therefore around 2% lower than those in Canada, the chief market. Interest on most bonds is payable in New York and Canada, but in some issues it is payable only in the latter. In such cases the investor should realize that the interest he receives is the face value of the coupon (or interest check in case of registered bonds) minus about 2% of this amount to cover exchange.

Normally, however, New York funds in Canada command only from 1-64 to ⅛% premium, and with exchange somewhat nearer normal, the American investor will not lose so much of his interest, though the total amount that he surrenders even with the exchange at prevailing exceptional levels is not very large. For example, a bond whose interest is payable in Canada, and which carries a $50 payment will have to deduct only $1, but with exchange down to ⅛%, the loss would be only about 7c.

The rates of return on the above bonds vary from 5.30% for the Dominion 5s to 7% for the City of Calgary 7s. Among the municipal obligations of Canada the issues of the City of Toronto command the best credit basis. The bonds yielding over 6% are those of western provinces and municipalities. While the market for such issues has undoubtedly been somewhat depressed by a few recent irregularities, the bonds mentioned above are good and with conditions more normal in Canada and in the bond market should see higher values, and in time should attain substantially better investment positions.

TABLE II—LIST OF ATTRACTIVE ISSUES, IN ORDER OF YIELD

Issue	Maturity	Price About	Approximate Rate of Return
Dominion of Canada 5s	1937	96½	5.30%
Province of Quebec 4½s	1946	85.91	5.50
Province of Alberta 5½s	1939	100	5.50
Province of Manitoba 5½s	1939	100	5.50
City of Toronto 4½s	1945	86.13	5.50
City of Toronto, Harbor Commissioners' 4½s	1953	84.13	5.50
Province of Ontario 4s	1926	90¾	5.62
City of Maisonneuve (now Montreal) 5s	1954	88¾	5.75
City of Montreal 5s	1936	92	5.75
City of Sherbrooke, Que., 6s	1923	99	6.25
Province of Saskatchewan 6s	1938	96.62	6.30
Greater Winnipeg Water District 5s	1922	95.82	6.35
Province of British Columbia 4½s	1925	88.27	6.50
City of Calgary, Alberta 7s	1928	100	7.00

How to Invest

Chap. VI.—How to Read a Circular

Matters the Investor Should Bear in Mind in Connection with New Offerings—Denominations and Par Values —Coupons and Registered Bonds

By GEORGE E. BARRETT

THE circulars issued by banking houses describing investment securities are the usual means of presenting issues to the public. By being placed upon the mailing lists of representative houses an interested investor may obtain these circulars describing practically all the securities being offered to the public.

The circulars may describe new issues or those which have been outstanding in the hands of the public for a long time. The investment banking houses usually own the securities they offer for sale. Sometimes the circulars describe issues which the banking houses do not own, but which they believe very attractive for special reasons and which they are able to obtain upon receipt of an order.

It is proposed to explain in a general way the principal facts and features of a typical circular from the standpoint of the investor.

The circulars issued by banking houses vary in form, the tendency being to develop a circular which is distinctive and easily recognized as the circular of the particular issuing house. The information contained in circulars varies widely in the manner of its presentation. Generally speaking, the body of a circular consists of a letter signed by an official of the corporation issuing the security. These letters are usually prepared by the banking houses, as they know the general information required in a circular. The official of the corporation checks it up, addresses it to the banking house and signs it. The banking house generally summarizes the President's letter and such other information as is obtainable from legal documents, experts' reports and other authoritative sources and prints a front page of the circular containing the President's letter. Sometimes two circulars are prepared covering an issue, one being a brief summary and the other a more lengthy and detailed description.

The information contained in a circular usually covers the essential facts required to judge the value of the security, together with various details, which constitute general information for the investor. Sometimes unfavorable features may not be included and certainly will not be emphasized. If essential facts are lacking, the investor must inform himself from other sources or leave the security alone.

If it were the matter of safety only with which an investor is concerned, it would be possible to say that the business of a corporation, its assets and earning power were the most important items in a circular to examine. However, as pointed out in a previous chapter, it is not only the security with which the investor is concerned. Therefore, rather than distinguish the different items in a circular and classify them as to their bearing upon the various features and principles of investments and the individual's requirements, the items will be taken up in the order in which they appear in the circulars of representative banking houses.

Name of Corporation

While this is usually the first information on a circular, it does not of itself signify anything definite regarding the security. It should mean that the security offered is either the obligation of that corporation or its shares of preferred or common stock. It is often said that there is much in a name. This is so. A name hard to pronounce might be a se-

rious handicap in the salability of the corporation's securities. On the other hand a well known name is of value. For example, the inclusion of the word "Edison" in the name of a corporation selling electricity has proved to be a distinct advantage. Therefore, a corporation having a well known name is preferable to the investor.

Name of Security

The title of the security offered is intended to convey a distinct message to the investor, but is not absolutely conclusive.

The name indicates the class to which the issue belongs and any especial features bearing upon its security. It is important to verify the facts indicated, especially in case of a bond, as it may sometimes be misleading—for example, a so-called first mortgage bond may be a first mortgage only on a small part of the property and a fourth or fifth mortgage on the remainder.

The rate of interest or dividends is usually included in a title and signifies the rate of annual return which the investor may expect.

Often the word "cumulative" is included in the title of "Preferred Stock" to indicate that it has the modern provision requiring that unless the dividends are paid regularly, they will accumulate and have to be paid before the common stock can receive dividends. The words "sinking fund" may be included in the title of a bond, and occasionally in that of a preferred stock to indicate that it has a retirement feature. The term "Common Stock" usually indicates that the corporation has preferred stock outstanding. Otherwise it is spoken of as Capital Stock. It is possible that the only stock outstanding be preferred, as in the case of the Great Northern Railway Company.

There is no absolute rule as to any particular type of security which is best. If we were confined to the securities of a particular corporation the various issues could be given definite ratings as investments, but, we are dealing with various securities of various corporations and, therefore, other factors may far outweigh the matters relating to the particular type of the security.

It will not be essential to define every type of security at this point, but reference may be had to previous chapters and to the glossary of financial terms appended, wherein it is intended to give an understandable interpretation of the meaning of the different names of securities.

Often included in the title of a Bond or Note is the word "Gold." This indicates that the holder has the right to be paid at maturity in gold coin. This practice arose as the result of the Civil War and the period of depreciated paper money which this country experienced. Gold, is the basis of our money and is generally acceptable throughout the world, whereas paper money of some countries may become practically or entirely worthless. The provision requiring the payment of a security in gold was to satisfy investors that at maturity they would not be paid off in depreciated paper money when they had paid for their securities with money at its full value. The necessity for this provision does not exist in this country today and in many cases has been omitted from securities issued during recent years. The omission of the word "Gold" in a title, however, does not imply that this provision has not been made.

Size of An Issue

The heading of a circular usually includes the word "authorized," "issued" or "outstanding," followed by the amount.

The amount authorized is of practically no importance in considering a stock. The stockholders of a corporation are able to increase the authorized amount of a preferred or common stock issue and little difficulty is experienced in doing so. Obviously, a security cannot be issued in excess of the amount authorized. Authorized amounts of securities are generally fixed largely in excess of present requirements with a view to meeting possible developments of the future.

In the case of bonds, the amount authorized may be a very important matter. As the amount authorized under a mortgage cannot be increased, if the bond issue is secured by a first mort-

gage on the property and all of the bonds authorized have been issued, it would obviously be to the advantage of the holder of the bond to know that additional bonds could not be issued to share the security. Such securities are called "closed issues" or "closed mortgages." It would also be to the advantage of the holder of junior bonds to know that no additional bonds having a prior lien could be issued.

The practice has developed of making unlimited the amount of general or refunding mortgage bonds. Such mortgages are usually for the purpose of retiring and consolidating the present mortgages outstanding as they mature and are to provide for future financial requirements. Many corporations have had their business practically crippled by the financial restrictions placed upon them under the terms of the indentures securing their bonds. That is, they have not been able to secure necessary working capital by selling bonds even when their business justified it. It is important to examine the requirements and restrictions under which additional securities may be issued however, and this will be treated later on.

The amount issued or outstanding would appear to be one and the same thing, but this is not exactly so. The word "outstanding" means the amount of the securities of this particular issue in the hands of the public, whereas the amount "issued" usually means the amount which has actually been issued under the terms of the mortgage and includes the amount outstanding together with any securities which the company may have on hand and which it is at liberty to sell at any time. Securities issued but in the hands of the company are not the same kind of a liability of the corporation as if outstanding in the hands of the public and must be allowed for in making up a statement of the company's liabilities or debts.

Interest and Dividend Dates

The heading of a circular usually includes a statement such as "interest payable semi-annually, January 1st and July 1st," or "dividends payable quarterly on the first days of January, April, July and October."

Bond or note interest is not always payable semi-annually, but usually so, and of course the dates will vary with different issues.

Dividends on preferred and common stocks are usually paid quarterly, but there are securities on which they are paid semi-annually. While dates for the payment of dividends on preferred stocks are usually fixed, the dividend dates on common stocks can be changed in the discretion of directors.

In fact, the payment of dividends on either preferred or common stock lies entirely within the discretion of the board of directors, subject only to the usual limitations that dividends cannot be paid upon the common stock until the preferred stock has received its dividends, and in the case of the preferred stocks bearing the cumulative feature, until all accumulated dividends have been paid.

The matter of interest and dividend dates is of particular interest to the investor who would arrange the receipt of income from securities in a manner most convenient to meet financial requirements during the year.

Denominations and Par Values

In the heading of a circular the following items usually appear; in the case of a bond or note—"issued in denominations of $1,000," in the case of stock "par value $100."

Bonds and notes represent parts of the entire amount of the particular issue of securities outstanding. When investment was confined to people with considerable amount of wealth, bonds and notes in denomination of $1,000 were the most convenient and are now in most common use.

However, as the investment field has broadened and persons of moderate circumstances have become bond buyers, corporations have issued securities in smaller denominations. Many bonds are issued in denominations as small as $50. The par value of stocks, while usually $100 may be in smaller amounts, generally $1.00, $10.00, $25.00 and $50.00. Shares of stock of the same issue are always of the same par value.

(To be continued)

BOND BUYER'S GUIDE

A Classification of Listed Bonds

Arranged by F. M. Van Wicklen

THE following table includes most of the *active* bonds listed in the New York Stock Exchange. An endeavor has been made to arrange these bonds in the order of their desirability as investments, based upon a combination of two factors, namely, security of principal and income return.

In many cases it is difficult to determine whether a certain bond should be rated above or below another, and in this respect the investor who has uppermost in mind security of principal will no doubt differ as to classification, with one who is concerned primarily with the amount of income received from the investment, and *vice versa*. The arrangement below, however, attempts to balance these two factors. ***This table appears in every third issue of this magazine.***

FOREIGN GOVERNMENT BONDS

	Approximate Price March 6	Approximate Yield
U. K., Gt. Brit. & I. 5½s, 1937	100½	5.45%
Paris 6s, Oct. 15, 1921	100	6.00
Anglo-French 5s, Oct. 15, 1920	97¼	6.90
Jap. 2nd Ser. German Stpd. 4½s, 1925 (Par value $974)	87	6.75
French Cities 6s, Nov., 1919	101⅜	
U. K., Gt. Brit. & I. 5½s, Nov., 1921	98¾	6.10
Dom. Canada 5s, April, 1921	98⅝	5.85
Dom. Canada 5s, April, 1926	96¾	5.40
Am. For. Sec. 5s, Aug., 1919	99¾	5.30
U. K., Gt. Brit. & I. 5½s, Nov. 1919	100¼	5.05
Dom. Canada 5s, April, 1931	97⅝	5.25

RAILROAD BONDS LEGAL FOR NEW YORK STATE SAVINGS BANKS

First Grade:		
Pennsylvania Gen. 5s, 1968	94⅞	5.30
C., Burl. & Q., Ill. 3½s, 1949	74¾	5.15
Lou. & Nash. Unified 4s, 1940	85¼	5.15
So. Pac. Ref. 4s, 1955	81	5.15
At. Coast Line Cons. 4s, 1952	82¾	5.10
C., Burl. & Q. Gen. 4s, 1958	81¾	5.10
Union Pacific 1st 4s, 1947	86	4.90
Norf. & West. Cons. 4s, 1996	84	4.80
C. & North West. Gen. 5s, 1987	99	5.05
Union Pacific Ref. 4s, 2008	82	4.90
Nor. Pac. p. l. 4s, 1997	84	4.80
N. Y. Cent. 1st 3½s, 1997	72½	4.85
Lake Shore 1st 3½s, 1997	73	4.85
Atch., T. & S. F. Gen. 4s, 1995	82¾	4.85
Pennsylvania Cons. 4½s, 1960	95½	4.80
Illinois Cent. Ref. 4s, 1955	81¼	5.15
M. St. P. & S. S. Marie Cons. 4s, 1938	86	5.15
C. M. & St. Paul Gen. 4½s, 1989	81	5.60
Balt. & Ohio p. l. 3½s, 1925	88	5.75
Balt. & Ohio 1st 4s, 1948	76½	5.65
Del. & Hudson Ref. 4s, 1943	84½	5.15
Nor. Pacific Gen. 3s, 2047	59¼	5.05
Gt. Northern 4¼s, 1961	87	4.95
Second Grade:		
C. M. & St. Paul Conv. 4½s, 1932	79	6.90
Balt. & Ohio Conv. 4½s, 1933	78¼	6.90
C. M. & St. Paul Ref. 4½s, 2014	71¾	6.35
C. M. & St. Paul Conv. 5s, 2014	80½	6.25
Balt. & Ohio Ref. 5s, 1995	82	6.10
N. Y. Cent. Ref. 4½s, 2013	82	5.50

RAILROAD BONDS NOT LEGAL FOR NEW YORK STATE SAVINGS BANKS

First Grade:		
C., Burl. & Q. Joint 4s, 1921	95¾	6.05
Union Pacific Conv. 4s, 1927	87	5.80
Lehigh Valley 6s, 1928	101½	5.75

Oregon Sh. Line Ref. 4s, 1929	85½	5.75
At. Coast L., L. & N. Coll 4s, 1952	76	5.60
Lake Shore Deb. 4s, 1928	89	5.45
Ill. Cent.-C., St. L. & N. O. Joint 5s, 1963	91	5.55
Col. & So. 1st 4s, 1929	88¼	5.50
Seaboard A. L. 1st 4s, 1950	73	5.90
Virginian Ry. 1st 5s, 1962	91	5.55
Cent. Pac. Ref. 4s, 1949	79	5.40
Wabash 1st 5s, 1939	95½	5.30
Southern Ry. Cons. 5s, 1995	94	5.30
Union Pacific 6s, 1928	103¾	5.45
Kans. City Term. 1st 4s, 1960	77¾	5.35
N. Y. Cent., L. S. Coll. 3½s, 1998	65	5.40
C., Rock I. & Pac. Gen. 4s, 1988	77½	5.20
Reading Gen. 4s, 1997	84½	4.75
Second Grade:		
St. L.-San Fran. p. l. 4s, 1950	61½	7.10
Den. R. Grande Cons. 4s, 1936	70	7.00
Mo. Pac. Ref. 5s, 1923	94	6.55
Ches. & Ohio Conv. 4½s, 1930	79	7.25
Ches. & Ohio Conv. 5s, 1946	85½	6.10
So. Pac. Conv. 4s, 1929	83¼	6.15
So. Pac. Conv. 5s, 1934	102	4.80
C., Rock I. & Pac. Ref. 4s, 1934	73	6.90
Col. & So. Ref. 4½s, 1935	77¾	6.75
N. Y. Cent. Conv. 6s, 1935	98¾	6.10
Kans. C. So. Ref. 5s, 1950	83½	6.15
Pere Marquette 5s, 1956	85	6.00
C. M. & St. Paul 4s, 1925	82	7.50
Mo. Pac. Gen. 4s, 1975	61	6.70
Erie Cons. 4s, 1996	67½	5.90
C. C. C. & St. Louis Gen. 4s, 1993	69	5.90
St. L. So. West. 1st 4s, 1989	69½	5.85
Erie Conv. 4s, "D," 1953	49¼	8.50
Chic. Gt. West. 1st 4s, 1959	61¼	6.80
Southern Ry. Dev. 4s, 1956	66½	6.35
Erie Conv. 4s "D" 1953	49¼	8.50
West. Md. 1st 4s, 1952	61	7.05
INDUSTRIAL BONDS		
Central Leather 1st 5s, 1925	96¼	5.65
Western Electric 1st 5s, 1922	98	5.55
Beth. Steel Ref. 5s, 1942	89½	5.85
Lackawanna Steel Cons. 5s, 1950	87½	5.85
Midvale Steel 5s, 1936	86⅜	6.20
Armour & Co. R. E. 4½s, 1939	88	5.50
Rep. I. & Steel 5s, 1940	95	5.40
National Tube 1st 5s, 1952	96½	5.20
Indiana Steel 1st 5s, 1952	98½	5.10
Am. Smelt. & Ref. 1st 5s, 1947	91¾	5.60
U. S. Steel S. F. 5s, 1963	100	5.00
Am. Agri. Chem. Conv. 5s, 1924	98	5.45
Wilson & Co. 6s, 1941	98½	6.20
Inter. Mer. Mar. 6s, 1941	98¾	6.10
U. S. Rubber Ref. 5s, 1947	86¾	6.00
Va. Car. Chem. 1st 5s, 1923	95½	6.15
Am. Cotton Oil Deb. 5s, 1931	88¼	6.35
Gen. Elec. Deb. 5s, 1952	99½	5.00
PUBLIC UTILITY BONDS		
Am. Tel. & Tel. Conv. 6s, 1925	103⅛	5.40
Am. Tel. & Tel. Coll. 4s, 1929	84½	6.05
Am. Tel & Tel. Coll. 5s, 1946	91	5.60
N. Y. Telephone 4½s, 1939	90	5.35
Consol. Gas N. Y. Conv. 6s, 1920	101	....
Int. Rap. Tran. Ref. 5s, 1966	70¼	7.25
Public Serv. Corp. N. J. 5s, 1959	79	6.50
B. R. T. 7s, 1921	84	....
Int. Met. Coll. 4½s, 1956	35	....

Investment Inquiries

A letter enclosing stamped self-addressed envelope will bring you a PERSONAL reply to an inquiry on any security in which you are interested. This Investor's Personal Inquiry service is free to yearly subscribers.

GOOD PREFERRED STOCKS

A Mixed List with Possibilities

In reply to your inquiry for a mixed list of preferred stocks of high and medium grade, we suggest:

Willys-Overland
Bethlehem Steel, new
Southern Railway
Cities Service
Crucible
Cosden & Company

These are all fairly active.

The following preferred stocks are inactive, but apparently secure and in our judgment attractive:

Mexican Petroleum
J. I. Case
Worthington Pump Pfd. "A"
Galena Signal, new
Kansas City Southern
Colorado & Southern

International Paper pfd. and American Ice pfd. do not yet enjoy a high rating but they have good prospects and are considered attractive at these levels as the return is high as compared with their intrinsic worth.

MINES COMPANY OF AMERICA

Reorganized and Name Changed to Dolores Esperanza

Mines Company of America is discussed in our March 1 issue of the magazine, page 860. The assessment was due February 19, 1919, and you are too late now.

You might communicate with Hayden, Stone & Co., 25 Broad Street, N. Y. C., and ask them whether you could take up the shares of the new company, and upon what terms.

We advised those subscribers who applied before February 19, to pay their assessments for the reason explained in the magazine. The new stock of the Dolores Esperanza is about 2¼ bid (full assessment paid).

PALMOLIVE 7% NOTES

Not Best Investment for Woman

We do not consider Palmolive Company's 7% Gold Notes the best investment for the funds of a woman as compared with some of the more active listed bonds classified in the Bond Buyers Guide of The Magazine of Wall Street, February 1 and every third issue. We would suggest an exchange of these into American Telephone Conv. 6s, International Agriculture 1st 5s, Colorado & Southern 4½s or Frisco Prior Lien 4s. These are all active listed bonds which are selling at a depressed level, substantially safe and more attractive, we believe, as an investment for you.

It is a good thing to get into something you can always *sell* as well as buy. Otherwise the time may come when you will suffer embarrassment, and the average woman usually sacrifice an unsalable security.

BROOKLYN RAPID TRANSIT

A Switch Suggested

It looks as though the reorganization of Brooklyn Rapid Transit would be a long drawn-out affair. Our investigator reaches the following conclusion: "Aside from minor ups and downs, B. R. T.'s outlook is gloomy. In a receivership, with dividend prospects remote and facing a period of drawn-out rehabilitation, the stock is not cheap at 25.

"We believe those who have this stock should exchange it for Willys-Overland common, selling slightly higher, and which has had a reaction of more than five points. We believe the $3 dividend on Willys-Overland will be restored later, against $1 now paid, and that the stock will sell much higher."

An "Irish dividend" (an assessment) is a drug on the market and unpopular with investors. When this is declared and holders of B. R. T. commence throwing their stock on the market you might be able to repurchase at bargain-counter prices, and it may then be cheap. Meantime, you can well afford to let the other man "carry" it. There appears to be no reason why *you* should do so indefinitely.

A $4,000 INVESTMENT

Diversified Specvestment List

For the investment of $4,000 in preferred stocks, we suggest the following:

American Locomotive pfd.
American Woolen pfd.
Bethlehem Steel, new pfd.
Southern Railway pfd.
Kansas City Southern pfd.
Willys-Overland pfd.
Cities Service pfd.

We suggest that you purchase all of these, a few of each being more desirable than to tie up your funds in one or two.

PEERLESS TRUCK & MOTOR 6s

Unusual Security for High Yield

Peerless Truck & Motor 6s (1915-1925) around 90 yield about 8%. Market for them is the Cleveland Exchange and over the counter New York. They are an exceptional bargain, and may be redeemed at 102. See no reason for their low price.

A total of $5,000,000 was issued in 1916, at 96, and found a ready market. Two million three hundred thousand have since been bought in, so that only a little over $2,700,000 are outstanding. On these the interest obligations is about $162,000 yearly. This was earned twelve

times in 1916, and about eight times in 1917, after income and excess profits taxes and setting up a special reserve for contingencies. In the first half of 1918 earnings were well in excess of 1917, and it is expected that the year as a whole will at least equal 1917. Cash in treasury is equal to the remaining outstanding notes. The company is doing an exceptionally large business, and passenger cars sold this year will probably establish a new high record.

At the end of 1917 current assets exceeded liabilities by $7,672,000, making working capital alone about two and three-fourth times the notes now outstanding. While these notes are in the form of a debenture secured by the general credit of the company, there are no prior liens except a $280,000 real estate mortgage, so they are practically a first lien on the company's property, which was placed at $3,886,000 at the end of 1917 for land, plant, buildings and equipment—in addition to the working capital above mentioned.

Even in liquidation, the position should be entirely secure, although there is no prospect of liquidation. The $10,000,000 of capital stock ($50 par) sells around $20 a share. No dividends are paid, but in 1917 the earnings were equal to 9½% on this stock and are expected to equal that figure in 1918.

These notes are a business man's investment, having unusual security in comparison with the yield.

INTERNATIONAL PAPER PFD.

A Business Man's Investment

International Paper pfd., paying 6% dividends and yielding 8.6% at 70, we consider a satisfactory business man's investment with good possibilities of attaining a better investment position and higher prices. Earnings have shown a decided improvement since the close of 1915. In 1917 "Paper" had its banner year, showing an operating income of $12,368,338 compared with $7,002,793 and $2,648,906 respectively in the two previous years. The official income account for the full 1918 period is not yet available, though a high official estimates that earnings from operations will be about $7,000,000. The annual rate on the preferred stock was 5.44% in 1915, 22.85% in 1916, 33.11% in 1917, and 22% (estimated) in 1918.

The decrease in 1918 should not be taken as indicating any serious difficulties in operations, though despite several increases in prices allowed to be charged, costs did climb somewhat faster than income. The company has been putting large earnings back into the property, has reduced its bonded debt substantially, and is building a new plant to manufacture high grade paper, on which its profit should be higher than on the poorer grades. Bonded indebtedness as of December 31, 1911, was $16,473,000; at the end of 1917, $11,784,000; and on March 31, 1918, it amounted to $7,474,000. Undoubtedly this amount is even less now, as the bonds carry a sinking fund provision, ½% being retired annually. Figured on the March 31, 1918, balance sheet, the tangible assets for each share of the preferred exceed $225, and liquid assets are close to par. Assets of International Paper are reported to be undervalued as it has very valuable properties in its water power rights and timber lands. Moreover, the equity of the preferred stockholders in the property is increasing as the bonded indebtedness is being retired. Working capital on March 31, 1918, was about $23,000,000, or more than twice that on December 31, 1915.

While the war has been fully responsible for the large increases in earnings since 1915, the paper industry has not expanded in the past few years beyond the installation of two or three new machines, and the supply is stated to be barely sufficient to meet the demand.

A LIST OF BONDS

Attractive Investment Issues

In reply to your inquiry for a list of attractive bonds and the indicated yield at prevailing prices, we would suggest:

Southern Pacific 5s,	yielding about	4.74%
Southern Pacific 4s,	" "	6%
Amer. Tel. & Tel. 6s,	" "	6%

Longer term issues of attraction are:

Chile Cop. Conv. 6s,	yielding trifle over	8%
Frisco Prior Lien 4s	"	7%
C. & O. Conv. 4½s	"	7%
Jap. 4½s (Ger. Stmp.)	"	6.25%
Colo. & Sou. Rfg. 4½s	"	6½%
South. Ry. Gen. 4s	"	6.27%
N. Y. Central Deb. 6s	"	6%
K. C. Southern 5s	"	6%
Wilson Conv. 6s	" about	7%
Anaconda 6s	" "	6½%

MAGMA COPPER

A Promising Long Pull Proposition

Magma Copper sold at 59½ early in 1917, when the importance and extent of its ore reserves first began to be recognized. It has since been very thoroughly liquidated, touching 23 last December. Most of the stock is owned by a well known Wall Street millionaire closely connected with the Morgan interests, and very little comes on the market. The price is now 27 bid and 29 asked, and we believe it is a bargain anywhere under 30. It pays $2 a year dividends, which makes the yield 7½% at 27.

The earnings on the stock were $4.57 in 1916 and $4.45 in 1917. Copper production was 6,046,000 pounds in 1915, 8,473,000 in 1916, 10,148,000 in 1917, and about 10,800,000 in 1918. Cost of producing copper was 11.77c per pound in 1916 and 16.01c in 1917, the increase being chiefly due to higher wages. Mill recovery, however, improved, being 90.5% in 1917 against 83.1% in 1916. The company is strong in current assets.

The No. 1 shaft, in sinking which the important strikes were made which put the stock to 59½, is down to the 1,500-foot level, where

a large ore body exists. Tests have been made here to a depth of 2,500 feet, showing that the ore body persists to that depth. Shaft No. 2 is chiefly a ventilating shaft and did not greatly incrase production. Shaft No. 3 is now down 800 feet or more, and strikes have already been made showing the presence of another distinct and important vein. No. 3 is steadily progressing. It is a three-compartment shaft and it will result in greatly increasing the production of the mine and reducing the cost per pound.

One important cause of the high cost now is the amount of development work that is being done. This is mostly charged to operating expenses. We believe that the completion of Shaft No. 3 will bring a sharp decline in the actual cost of production.

The 1918 report, when it comes out, will not be especially favorable in our judgment. In fact we expect that earnings per share will be smaller than in 1917, but they will be ample to permit the maintenance of the $2 dividends. On the other hand, this is a stock which must be bought when it can be had, as when the favorable news comes out there will be little for sale anywhere around present levels. We do not recommend buying "at the market" but we suggest placing fixed orders "good until cancelled," at any price below 29, so as to get any stock that comes out. If the stock is not obtained, these buying orders should eventually be raised, say half a point at a time. The best way to get a stock like this is to buy on pessimism.

This is a long pull proposition, but we consider it one of the most promising. Eventually this stock should sell far higher. In the meantime it is paying regular dividends.

COSDEN & CO.

Continually Strengthening Position

Cosden & Co., in 1917, earned over 46% for its present common stock, but enormous deductions for depreciation and war taxes reduced this figure to about 18%, which compares with a current dividend rate of 10% annually. In the first half of 1918, 21% was earned for the common stock (presumably before deduction of war taxes) and somewhat better results are hoped for from the last half.

The company's $9,600,000 outstanding convertible bonds are worthy of attention as a business man's investment. These are in two series, A and B, with a slight difference in the convertible privilege before July 1 next, but as there is little prospect of a profit in conversion before that date, the two may be considered as practically identical.

In 1917 the company earned total bond interest charges, after deduction of war taxes and depreciation, about five times over. The bonds are a mortgage on all the company's property and provide for an annual sinking fund of 5% of the bonds issued or 20% of net earnings, whichever is the greater, to be applied to purchase and redemption at not over 110. About $5,800,000 more of these bonds may be issued, being held in reserve for extensions, etc., at not over 85% of cost. They are well secured, therefore, both by assets and earnings, and eventually the amount outstanding will be reduced.

Paying 6% and maturing in 1932, the yield is about 7¾%, which is high compared with the security. After July 1 the bonds are convertible into common stock at $15 a share, so that if the stock should rise it would begin to draw the bonds up with it from about $13. In view of this company's possibilities of growth, and of the general interest in oil securities, there is a chance of profit through conversion and meantime a high yield would be obtained.

OLD LINE RAILS

Their Investment Rating

The standard railroads have either remained stationary or declined somewhat during the recent advances in the market, and while we do not suggest specialties like Reading, Pittsburgh & West Virginia, or Texas & Pacific for strict investment, we see no objection to an investment in the old line railroads like Atchison, Pennsylvania, Union Pacific, Southern Pacific, Norfolk & Western, Illinois Central and Northern Pacific. Most of the preferred stocks in this group are very attractive, notably Southern Railway preferred, Kansas City Southern preferred, Baltimore & Ohio preferred (the latter on account of its low price) and Colorado Southern 1st preferred. The best railroads are not proof against further decline but the investor is justified in purchasing now as no one can foretell accurately the end of a decline. They are cheap enough at current levels to justify taking what chance there may be in this regard.

AMERICAN WRITING PAPER

A Speculative Issue

Under the circumstances, we do not favor new commitments in stocks like American Writing Paper pfd. even though the company made a good showing last year. The low price of the stock indicates its speculative character. If, however, you are prepared to assume a busness man's risk, we would suggest International Paper pfd., which is selling relatively cheaper and is in a more strongly fortified position as you will see on referring to our March 1 issue.

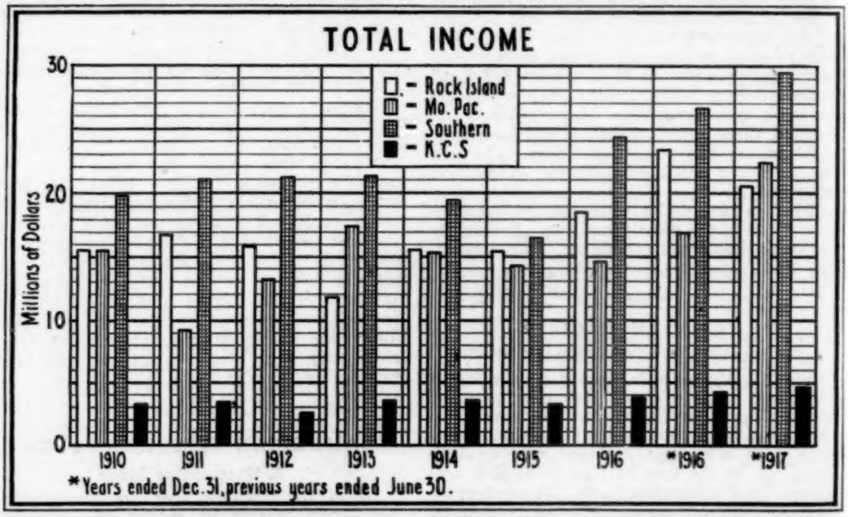
American Writing Paper pfd. has not paid dividends since the middle of 1913, and there is now about 130% due in back dividends. The company will have to provide for the payment of its 1st Ref. 5% bonds, due July. 1919, and the prospects for any dividends on the preferred stock for perhaps some years are remote.

Four Moderately Priced Rails With Good Prospects

Rock Island — Missouri Pacific — Southern Railway — Kansas City Southern.—Their Estimated Earnings

By GEORGE S. HAMMOND

AT the present time it requires quite a little courage to purchase railroad stocks, and more especially those of companies which do not rank among the most thoroughly established and successful members of the railroad family. There is not, at this writing, the least indication under what form of organization, control, or rate procedure and policy the American steam transportation system is to operate in future. It is true that Government ownership is practically a dead issue, but beyond the elimination of that factor as an element of uncertainty, the future cannot be more than a subject of conjecture. Are we to have one unified system of operation, regional consolidations, or will the present subdivisions of ownership endure? Is Government control to remain more extensive than in the past? Is there to be a guarantee of minimum revenues? Is there to be profit sharing with the Government or with employes? Is the old restrictive rate policy which brought our roads to the verge of disaster to continue? More questions might be asked, none of which could elicit an absolutely positive reply.



Railroad Problem Must Be Solved Justly

The investor who buys now must do so almost purely upon faith. He relies upon the belief that the railroad problem is to be solved justly, and with a reasonable degree of wisdom and foresight. To put it more bluntly, he looks for the railroads to get a square deal. To take issue with him would be to paint a gloomy picture of the whole investment

field. Sweeping though the assertion may appear, I think it is not stretching the truth to state that the railroad problem must be settled in a manner affording adequate protection to the rights of shipper, owner, and employe alike, or American economic progress will receive a blight of the very severest character. The problem is too serious, and involves the whole people so closely that no unjust scheme or half-baked idea can be permitted to intrude itself into the plan adopted, whatever its nature be.

To a certain extent, then, the buyer of sound railroad stocks is taking only the same risk as the purchaser of industrials or public utilities, for neither can those companies prosper in the long run under a régime of disregard for property rights and for proven economic principles. The faith which the railroad security buyer displays extends beyond the mere sphere of transportation. In the final analysis he is relying upon the genius of American institutions as evolved in a century and more of progress, and upon that levelheadedness when confronted with difficulties without which such progress would have been impossible.

In the ensuing discussion of four American railroads which seem to embrace in more than usual degree the elements necessary for gain in earning power and credit, it is assumed, whether rightly or wrongly, that conditions in the industry as a whole will not be more difficult than in the past. If one be of an optimistic turn of mind, he may readily find ground for belief that they will be better in some respects as a result of the attention now being focused upon them.

Rock Island

It would be difficult to name a purely railroad property typifying more clearly opportunity in American railroad securities than the Rock Island. The recent reorganization of this road, together with the subsequent redemptions at maturity, cut about $50,000,000 off of the old debt of $271,125,000, and the present amount of bonds is considerably under that of 1912, when the road was regarded as a prosperous property. At the end of 1917 the property investment was about $25,000,000 greater than that of 1912, and three years of more liberal maintenance charges had served to improve the general physical condition.

The Rock Island's 8,100 miles of road spread over fourteen states west and and southwest of Chicago. Its main lines extend from Chicago to St. Paul, Denver, Santa Rosa, N. M., and Dallas, Tex., from St. Louis to Kansas City, and from Memphis to Tucumcari, N. M. It has access to more of the western traffic centers than any other road, among them Chicago, St. Paul, Memphis, Minneapolis, Des Moines, Omaha, St. Louis, Kansas City, Denver, Fort Worth and Dallas. The lines connecting these points traverse a great agricultural and cattle country. Rock Island is classed as a granger, but has, none the less, an excellently diversified traffic.

The capitalization is about as follows:

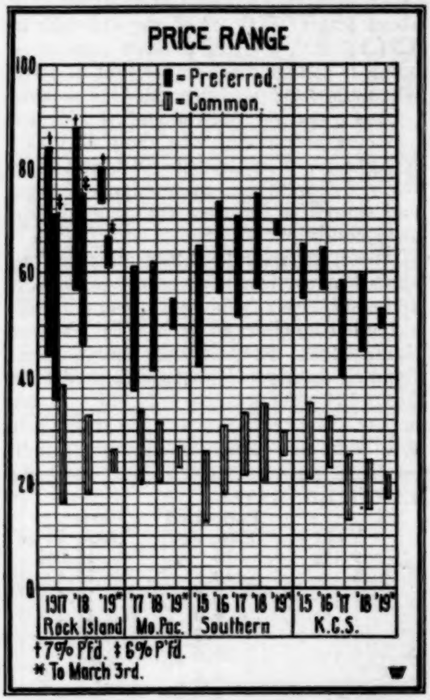
Funded debt	$220,000,000
Pfd. stock 7%, cum, to 5%	29,422,160
Pfd. stock 6%, cum. to 5%	25,000,000
Common stock	74,359,722
Total	$348,781,882

The total is just about the same as before reorganization, but the balance between bonds and stock is so much improved that solvency and fair credit should be much better assured than formerly.

FOUR MODERATELY PRICED RAILS

Issue	Price	Yield	Estimated Earnings	Earnings Upon Price
Rock Island 7% Pfd.	77	9.1%	10 %	13.0%
Rock Island 6% Pfd.	65	9.1	10	15.4
Rock Island Com.	24	...	2.5	10.4
Missouri Pacific Pfd.	54	...	6.0	11.1
Missouri Pacific Com.	25	...	.9	3.6
Southern Ry. Pfd.	68	7.4	10.6	15.5
Southern Ry. Com.	29	...	2.8	9.9
Kansas City Southern Pfd.	52	7.7	8.2	15.8
Kansas City Southern Com.	20	...	3.0	15.0

The company's claim for extra compensation under the Federal control act is reported to have met with refusal, and



the standard return should give an income about as follows:

Rental	$16,000,000
Other income	1,000,000
Total income	17,000,000
Charges	11,000,000
Federal taxes	600,000
Net income	5,400,000
Preferred dividends	3,559,000
Balance	1,841,000
Rate on common	2.5%

While this provides a very small margin over preferred dividend requirements, the results of the three year test period of Rock Island's earning power are scarcely a fair test of what the reorganized company may be able to do in the future. Though not highly conservative purchases, the preferred stocks look good, and their yield is liberal indeed. The common is a long way from justifiable dividend payments, but it unquestionably has opportunities for appreciation with the growth of traffic. The prices, yields, and estimated percentages earned on market values under Government control of the stocks of the Rock Island are given, together with corresponding figures for the other stocks included in this article, in the table.

Missouri Pacific

Missouri Pacific is a proposition somewhat similar to Rock Island. The amount of debt reduction as a result of reorganization and the present debts compare very closely. The recapitalization brought about the creation of a somewhat larger amount of preferred stocks, however, as follows:

Funded debt	$226,660,000
Preferred stock, 5% cum...	71,800,000
Common stock	82,839,500
Total	$381,299,500

As Missouri Pacific's pre-reorganization earning power, both gross and net, was smaller than Rock Island's, though its capitalization is now larger, it is not surprising that the preferred stock is not paying dividends, and that its quotation is considerably lower than that of its neighbor's issues. The common stocks are about even and are apparently inconsistent. As an offset to its apparent disadvantage, it may be said that Missouri Pacific's actually earned operating income was the better of the two in 1918, and that a plea for over $4,000,000 (5% on the common stock) special compensation is still under consideration.

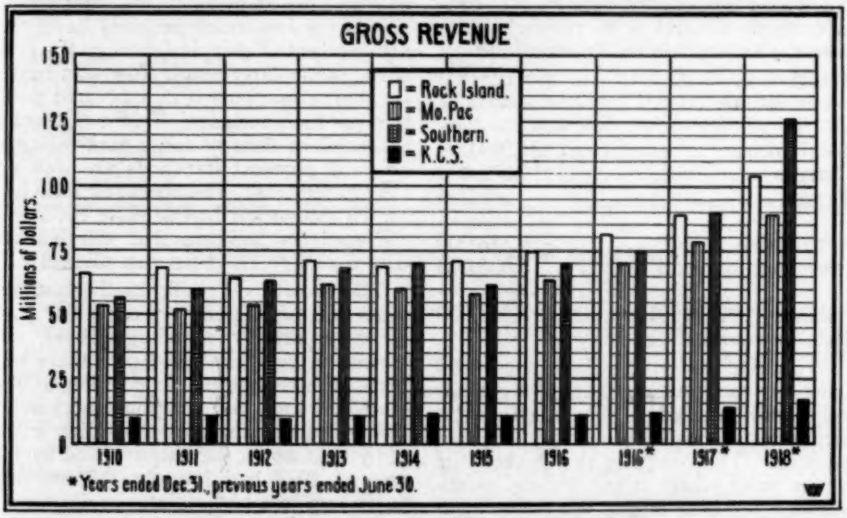
The standard return would bring an income about as follows:

Rental	$14,280,000
Other income	500,000
Total income	14,780,000
Charges	10,000,000
Federal taxes	478,000
Net income	4,302,000
Preferred dividend	3,590,000
Balance	712,000
Rate on common	9%

The Missouri Pacific proper runs almost due west from St. Louis to Pueblo, Colo., through the centers of the states of Missouri and Kansas. The only important deviation from an east and west line is a V running northwest from Sedalia, Mo., and then southwest to Oswatomie. From St. Louis to Kansas City the road very nearly parallels the Missouri River, as does the line running northwest from Kansas City to Omaha, passing through Leavenworth and Atchison. A network of lines covers the western part of Missouri, nearly all of Kansas except the western part, and also reaches into Southeastern Nebraska. The location of the Missouri Pacific is excellent, and should present great opportunities to a road free from financial difficulties.

The Iron Mountain, an integral part of the system, meets the Missouri Pacific proper at three points: St. Louis, Carthage, Mo., and the Oklahoma-Kansas State Line, near Coffeyville, Kas. Its lines all lie to the south of the eastern part of the Missouri Pacific and reach almost to the Gulf of Mexico at Lake Charles, La. Because the Missouri Pacific proper is a western road, while the Iron Mountain is a south-western line, the system as a whole enjoys a diversity of traffic which makes for stability of revenues. It may occur that the corn and wheat crops of Kansas are poor and the lead and zinc of Missouri are in light demand, while cotton may be a bumper crop, or just the opposite conditions may prevail. This has actually been the case several times. Of late both divisions have been phenomenally busy.

Missouri Pacific and Rock Island have alike enjoyed excellent growth of revenues. With rehabilitated properties and finances they may become, in due time, among the best roads in the country. Certainly they have the best of opportunities under enlightened management and fair regulation.



Southern Railway

Southern Railway is almost in a class by itself in the matter of growth. Its 1918 revenues more than doubled those of 1914. Another most unusual achievement is that of earning considerably more net in 1918 than ever before, in the face of a rise in costs which slashed the operating income of the railroads as a whole by a tremendous sum. Southern has been obtaining the full benefit of additions to facilities paid for out of income for many years back. The great prosperity of the South, centering about the heavy demand for cotton, has been a big factor in increasing traffic. Much of the stimulus has been of a purely war character, however. For example, a number of the

large cantonments are on the Southern's lines. It would be highly unwarranted to assume, therefore, that the road's growth is entirely of a normal character and likely to be fully sustained. On the other hand, Southern is facing forward, as viewed over a period of years, and its lines, spread in a closely woven net over the South, will inevitably share in the development of that section of the country. The practically unchanging level of charges has left whatever gains have been made available for the stock.

The company has a claim for over $4,000,000 special compensation. The petition would appear entitled to careful consideration. Should it be refused, however, the income will be about as follows:

Rental	$18,728,000
Other income	2,870,000
Total income	21,598,000
Charges	14,670,000
Taxes	585,000
Net income	6,343,000
Preferred dividend	3,000,000
Balance	3,343,000
Rate on common	2.75%

With the preferred dividend covered twice, its continuation should be reasonably well assured. The much larger common stock issue is in a very different position. The company is not yet quite to the point where it can borrow to advantage for long terms, but if this condition is overcome the common has a chance of paying dividends within a few years, but it is high enough now for a 2% dividend payer if such amount could be paid. Interest rates are high and standard railroad stocks may be had to net around 7%. The fact that this issue is now as high as its average price for any year since 1906 is interesting as a contrast to the general run of rails.

The capitalization is composed of:

Bonded debt	$275,000,000
Pfd. stock, 5% non-cum.	60,000,000
Common stock	120,000,000
Total	$455,000,000

Kansas City Southern

Much smaller than the roads previously mentioned and entirely lacking in anything of a spectacular nature, but with a record of steady progress, twelve years of unbroken preferred dividends and with a fair share of opportunity is Kansas City Southern. This road is nearly all main line, constituting the shortest route from Kansas City to the Gulf of Mexico. The points reached include Joplin, Texarkana, Shreveport, Beaumont and Port Arthur, with branches to Fort Smith and Lake Charles. The road forms a direct connection between the Union Pacific and the Southern Pacific systems. Most of its traffic originates on its own lines at present. Its chief possibilities for important progress lie in the development of shipping through the gulf ports, particularly South American trade. Its short route puts it in a favored position for such business. Traffic is already of excellent density for a southwestern line and physical standards are well up to requirements. The operating ratio has shown a downward trend since 1912, and the statistics indicate that the Kansas City Southern has been run efficiently.

The growth of traffic in the last ten years has been steady, though not particularly large. As charges have advanced in very similar degree there has been little change in the position of the stocks, though the continued accumulation of undistributed profits has gradually augmented their equity, and by the end of 1917 had brought the working capital up to a high point.

The present capitalization consists of:

Funded debt	$48,800,000
Pfd. stock, 4% non-cum.	21,000,000
Common stock	29,959,000
Total	$99,759,000

The valuation of the property under the Interstate Commerce Commission fixed a sum just about equal to the bonded debt. This valuation is being vigorously protested, however, and in view of the highly conservative basis on which the Division of Valuation works, it is probable that the preferred stock has asset value at least up to its market quotation, but it is doubtful if much can be said for the common.

Kansas City Southern has received but a moderate amount of Government advances and as the capital expenditures authorized by the Government were only $2,231,178, or about two years' surplus over preferred dividends, under Government control, there is nothing in the least involved in its situation. The Government contract should be all plain sailing and will probably deviate little from the following:

Rental	$3,575,000
Other income	75,000
Total income	3,650,000
Charges	1,840,000
Federal taxes	180,000
Net income	1,730,000
Preferred dividend	840,000
Balance	890,000
Rate on common	3.0%

The preferred stock seldom shows much activity, but it looks like one of the best investments to be had to yield nearly 8%. The regularity with which the dividend has been paid is a tribute to the stability of the company. The common is much below the prices established in every year since the road's organization. Dividends do not appear to be more than a distant possibility. At the same time 20 is a quite low valuation for the stock of a thoroughly solvent, well established road. The speculator who is content to take a six or eight point profit rather than hang on indefinitely to a non-dividend paying stock may find Kansas City Southern attractive at present prices. This is, of course, a purely speculative consideration, and the real investor may find much better opportunities for the use of his funds.

BORROWING FROM YOUR BANKER

A MEASURE of your banker's good opinion is his willingness to make your property a loan, and it may, therefore, be worth while to call attention to some things which may be expected to come up in your talk with him when you are applying for such accommodation.

On the occasion of your first visit, the banker may fence with a practiced hand to keep the matter from reaching a decision, while he puts you through a searching inquiry. He has certain answers and evasions always in stock for use in such emergencies.

His first general statement may possibly be to the effect that he has no available funds. Pass over this proposition—it is beside the question. If we never had sold any securities, except to investors who confessed having funds for investment, nor ever had borrowed from bankers, except those who announced that they had money to lend, we would now be millions behind our schedule. Having the money is the other man's problem—do not discuss that at all. Show him that he wants to do business, and he will find the money.

Well, then, he may say that you are making money, as your statement shows, and so you ought not be needing to borrow. If he takes this position, you might respectfully ask him whether he would lend you any money if you were not making any. You should explain to him the elementary fact, that your business is unlike that of a merchant who turns over his goods several times in a year, or the industrial establishment which sets up its plant once and for all to mill out its product continually. A satisfactory rate of return is practically assured on the capital invested in your business, but the income is not always sufficient to finance the growth of the property. The banker will listen to this discussion with interest, for he naturally wishes to diversify his own business, and take a part in every activity in the community.—J. M. McMillan.

Baldwin's Mysterious Position

Remarkable Growth in Four Years—Large Earnings Concealed by "Charge Offs"—Probable Explanation of Conservation of Assets—The Stock's "Long Pull" Position

By A. U. RODNEY

JUDGING from superficial appearances, we might conclude that Baldwin Locomotive is as poor as the proverbial "church mouse." Net earnings in 1918 were many dollars per share under the previous year, despite the biggest business year in the company's history.

But stockholders and many others are not convinced that Baldwin is headed for the almshouse. Money made is money made, and it makes very little difference ultimately, whether stockholders secure disbursements immediately in small amounts or later in a lump. The question, of course, is, Has Baldwin a greater value than the current report indicates?

What is Baldwin's true position? "What will be done?" Stockholders and Wall Street generally, are very anxious to learn the answers to these two questions. Dividends on the common stock have been omitted again and stockholders want to know the facts. After all, the common shareholders take most of the risk in any business, and they expect the worst of it in bad times, but, conditions permitting, they are entitled to the profit when things go well.

Four Remarkable Years

When Baldwin started in business in 1911, its initial showing was not auspicious. As a successor to the firm of Burnham, Williams & Co., an old established locomotive business, Baldwin was capitalized at $40,000,000,—$20,000,000 common and $20,000,000 preferred. The first few years were poor ones and it was not until 1915 that real money began to be made. From about 1910 to the beginning of the war, railroads diminished their expenditures on equipment and with the export market very narrow, locomotive companies were hard put.

All this was abruptly transformed when the industrial companies in this country got over the first shock of the declaration of war. Contracts began to flood the equipment companies, and Baldwin almost immediately had its plant at capacity on munition and domestic business..

Gross sales in 1914 of $13,616,163 were increased to $22,083,011 in 1915, and net earnings rose from $350,230 to $2,827,816 or the equivalent of 7.14% on the common stock against a deficit for the previous year. Baldwin's true growth, however, is not depicted by a comparison between these two years as 1914 was the most disastrous of the company's history and while a good showing was made in 1915, that period should be considered as one in which preparations and extensions were made and in which the bad effects of the previous year were written off. In 1915, too, the company was new at the munition business and made many costly mistakes.

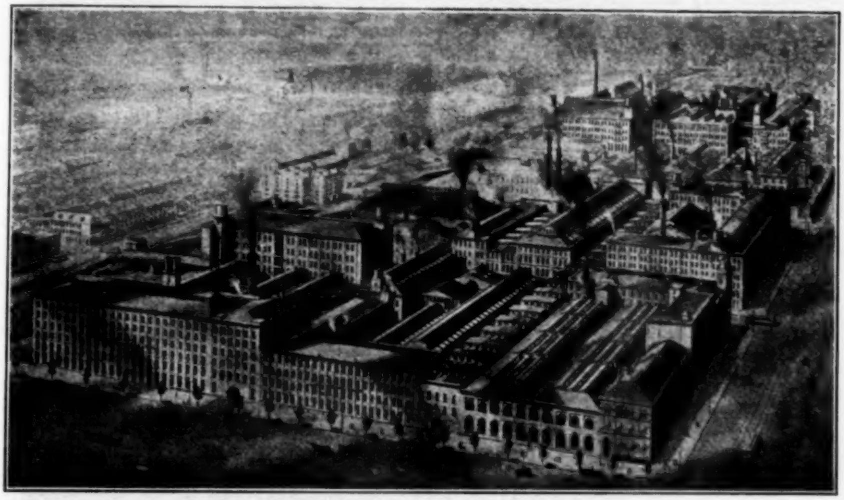
TABLE I
COMPARISON OF "CHARGE OFFS" IN 1917 AND 1918

	1917	1918	Increase
Depreciation Reserve ...	$ 600,000	$1,850,000	$1,250,000
Reserve for Taxes	1,750,000	6,500,000	4,750,000
Amortization of Bldgs...	....	3,698,921	3,698,921
Unexpended Appropriation	....	2,500,000	1,852,295
		*Total Increase	$11,551,216

*Increase represents 57.7% on the common stock.

An approximate guide to the company's growth is revealed in the years from 1915 to 1918, inclusive. Gross sales in 1916 were over two and a half times as large as in the previous year, while net earnings increased about two

and a half times in the same period, $2,827,816 in 1915 to $5,982,517. Earnings on the common stock were 22.91% in 1916 against 7.14% in the preceding year. These earnings compare with the amounted to $8,043,840. War business of course, had something to do with the increase in earnings, but the locomotive business amounted to the substantial sum of $63,445,574 to which must be added



Bird's-Eye View of the Baldwin Philadelphia Plant

best previous year, 1913, when 13.09% was shown on the common stock.

The rapid strides forward however, were made in 1917. In that year gross sales took another tremendous jump to $98,263,865 and manufacturing profits after depreciation, amounted to $11,779,020, against $6,361,711 in the previous year and $320,609 in 1914. Even after substantial "charge offs" net in- $13,835,707 as other regular business and the balance of about $20,972,583 was from munitions. Working capital in 1917 reached $27,305,791 against $8,553,424 the preceding twelve months, and plant valuation was written down from $52,286,370 in 1916 to $37,374,083 in 1917.

The 1917 returns do not include earnings of the Standard Steel Works, a

TABLE II—INCOME ACCOUNT

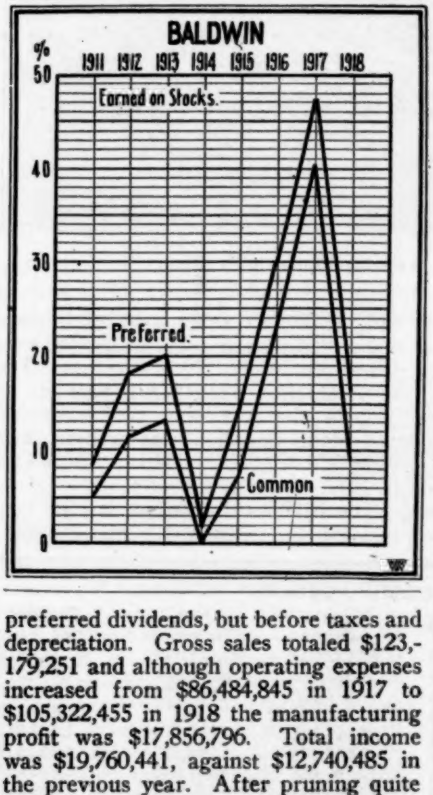
	Gross Sales	Operating Expenses	Total Income	Net Income	Surplus per Year
1911..........	$14,589,645	$12,965,429	$2,132,631	$1,671,419	$ 771,419
1912..........	28,924,335	25,371,666	4,383,602	3,698,571	1,898,571
1913..........	37,630,969	33,744,494	4,673,639	4,017,800	2,217,800
1914..........	13,616,163	13,295,554	981,754	350,230	1,449,770
1915..........	22,083,011	19,357,438	3,510,383	2,827,816	1,427,816
1916..........	59,219,058	52,857,347	7,042,938	5,982,517	4,582,517
1917..........	98,263,865	86,484,846	12,740,485	9,443,840	8,043,840
1918..........	123,179,251	105,322,455	19,760,441	5,752,295	1,852,295

come amounted to $9,443,840 or 47.22% on the preferred stock and 40.32% on the common. The surplus for the year Baldwin subsidiary. If these are included, and they should be if the correct appraisal of Baldwin's worth is to be ar-

rived at, earnings in 1917 should properly be placed at over $50 a share. In the three years, 1915, 1916 and 1917, the company earned on its common stock (according to the company's own reports) about 70.27%. It would be more correct to say that profits for the three years amounted to nearer $95 than the former figure if all the proper inclusions are made.

A Banner Year

As good as were the three previous years, they fade into insignificance when compared with the one just passed. Profits were equal to $84.30 on the $20,000,000 common stock after allowing for



preferred dividends, but before taxes and depreciation. Gross sales totaled $123,179,251 and although operating expenses increased from $86,484,845 in 1917 to $105,322,455 in 1918 the manufacturing profit was $17,856,796. Total income was $19,760,441, against $12,740,485 in the previous year. After pruning quite liberally, net income was brought down to $5,752,295 which, after preferred dividends are deducted, leaves an amount equal to approximately $21 a share on the common stock. Right here, however, was inserted a charge of $2,500,000 for plant improvements and the surplus for the year showed up as $1,852,295, or about $9.26 per share on the common. It takes no financial genius, therefore, to determine that Baldwin's position is hardly what the conclusion of the report seems to imply. Big money was made, and if it was made it is there, and should eventually accrue to the benefit of stockholders.

Some Interesting "Charge Offs"

A close examination of the income accounts given in Table II and balance sheets reveals some interesting facts Going back as far as 1916, we find the sum of $4,520,129 charged off before net earnings and representing a special depreciation and reserve for amortization of the Eddystone Munition Works and Standard Works machinery. This was justified at the time as the management feared that a sudden ending of the war would leave them with a lot of useless machinery that could be sold only for junk. The entrance of the United States into the conflict, however, changed the situation, but in the excitement that tidy sum is forgotten.

In addition to other things in 1917, good-will amounting to $15,800,000 was entirely written off so that the surplus instead of showing $15,855,346, showed $55,346. It is commendable that a company see fit to write off its good-will entirely, but there is hardly any doubt that Baldwin's good-will is worth a considerable sum, if not $15,800,000, then probably half of it.

The 1918 "charge offs" are unique. Going right down the income account from gross sales to surplus, we find many remarkable things. In the first place, depreciation charges were increased from $600,000 in 1917 to $1,850,000 in 1918. Baldwin's directors do not believe in being caught unawares by the tax collector either, as the reserve for this purpose was increased from $1,750,000 in 1917 to $6,500,000 in 1918. A new charge of $3,698,921 for the amortization of machinery, buildings, etc., was also stuck into the income account. A brand new account made its appearance under the head of "Unexpended Appropriations for Plant Improvements," and $2,500,000

was set aside for these purposes. A glance at the accompanying table shows that the increase over 1917 in amounts written off totaled $11,551,216, or 57.7% on the common stock. If the same deductions were made in 1918 as in 1917 earnings would, therefore, have very nearly approached $67 a share on the common stock after all charges.

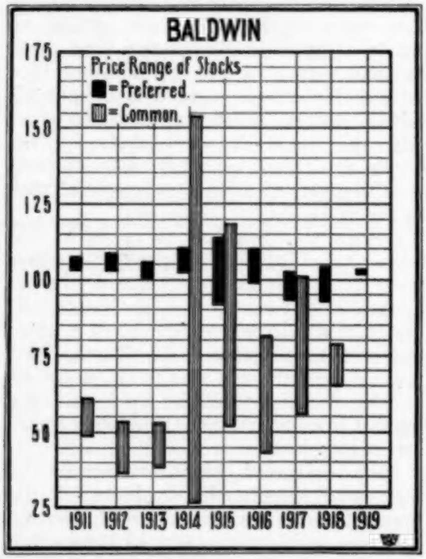
How Does Baldwin Really Stand?

In his statement to stockholders, Mr. Alba B. Johnson, president of the company, admitted that business was better than ever before but the future was so uncertain and present conditions so unsatisfactory that the company adopted an ultra conservative policy of holding all of their profits as a back-log against hard times. He stated that "so long as this curtailment of domestic business continues, the foreign markets must be the chief source of orders. But in view of the political unrest abroad and the time it will take for readjustments to be made so that business can be obtained from foreign sources, the board of directors have adopted the conservative policy of strengthening the company's finances, believing that the interests of the stockholders were best served by placing the company in the strongest financial position to meet the uncertainties of the future. For this reason they have continued the policy of omitting the dividends on the common stock." Inquiries by the writer fail to bring out that there was any other reason for omitting dividends or for making such heavy depreciation and other charges.

However, there may be other reasons. Speculative cliques are fond of advancing their pet theory of reducing taxes as far as possible and also of intimating that a declaration of a dividend would spoil the speculative incentive for the stock inasmuch as the news would then be "out." But the soundest reasoning and the most logical conclusion on the directors' decision not to pay dividends now is that Baldwin will sooner or later recapitalize and therefore is obliged to conserve its assets until that time. This is the most plausible explanation of the mysterious Baldwin position. For the amount of business done or even the amount of business expected to be done under normal conditions, Baldwin's capital is inadequate and the company would be justified in increasing its capitalization.

The Stock's Position

That Baldwin common has persistently maintained the highest selling price of any non-dividend payer is sufficient proof that investors expect some day a return for their waiting. Baldwin's equities are very large and facilities have expanded so, that in good times or bad, ample earning power should be shown on the present capitalization. As a "long pull" proposition, Baldwin under 80 is not high, and if an investor has the courage to disregard temporary fluctuations, he should in time be rewarded handsomely, but it is no stock to buy on sharp advances, such as have recently occurred.



Intimate Talks To Investors

Partners and Policies

By RICHARD D. WYCKOFF

THE best thing to know about a security, especially a stock, is this: Who are your fellow stockholders? In other words, who are the other partners in the business which you partially own?

I am prompted to write this after reading and hearing reports that the Pennsylvania Railroad Company has disposed of its holdings of Southern Pacific. Upon investigation I find that such is the case and that the reason the Pennsylvania directors decided to do this was simply that the road needed the money.

What other railroad security could have been liquidated to the extent of nearly 400,000 shares in the kind of a railroad market we have had since October? No other. And who bought all this Southern Pacific at a time when other railroad stocks went begging? Two of the wealthiest members of the Standard Oil group of financiers bought almost as much as Pennsylvania sold.

Before this purchase was made, intrinsic values and future prospects, especially oil prospects, were carefully investigated, and it was seen that the prevailing market price represented only a small part of the real value of the shares. That is why the purchase was made, and that is why the stock will be held until the market price advances to somewhere near intrinsic value.

Inquire around the Street, among the men who handle the business of the greatest financiers, and you will find that they are not buying railroad stocks, but they buy Southern Pacific when it is weak, because it combines a railroad, public utility and oil property in a sense that no other American security has done in the past. Also because they know that the values represented in the balance sheet alone are close to double par. See Mr. Laffey's analysis in our issue of December 7, 1918.

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Other Railroads in Weak Hands

For many years the big railroad builders and financiers of this country were large holders of the stocks of railroad properties with which they were identified. Estates of men like James J. Hill and his associates, the Vanderbilts, Smiths, Kennedys, and others, contained round lots of what were regarded by their orginal owners as choice securities.

But since 1914 there has been a constant breaking up of these large lots and a persistent drifting of railroad stocks out of the hands of the ten thousand-share holders and into the hands of the ten-share holders. To any one who understands Wall Street, this is an ominous sign, for it means loss of confidence on the part of those who manage the great estates of the deceased, as well as those holders who are still living. These men recall, sadly, the railroad stock markets of 1905 and 1906, when some leading trunk line stocks sold from three to seven times present figures.

Yes, it has come to pass that the small investor is the largest factor in the ownership of railroad securities and that the millionaire financiers have their money invested elsewhere.

The public is occasionally right. More often it is wrong, and for that reason it is never safe to follow the crowd.

While I have no doubt that in some way or other the railroad situation will be "muddled through,"it is hard to see how there can be a worse muddle. And here we have the reason for the comparative strength in the industrial shares at a time when the railroads have rallied but little. Also another example of the advantage in knowing the identity of your fellow stockholders.

* * *

The Croesus Stocks

Which properties will, in the future, prove to have been the best purchases in 1919? I'll tell you. It will be those which have put the larger part of their earnings back into their respective businesses.

The policy that resulted in Delaware, Lackawanna & Western stock advancing to several hundred dollars per share

while other railroad companies were struggling to reach or pass par, is the policy now being followed by some of our greatest industrial enterprises. The market will eventually interpret this in the form of increased values for shareholders.

I do not mean that every company which pursues this plan will finally sell at several hundred dollars per share, but I firmly believe that in many cases, allowing for the value of rights, the aggregate will, over the next ten years, be the equivalent thereof.

One example is Sears Roebuck. Cash dividends are held down to a reasonable figure, but every two or three years the surplus piles up to over $20,000,000, and then stockholders are given an opportunity to secure additional stock on advantageous terms. This new stock in time has children of its own, and they have grandchildren to the original certificates, so in the end the stockholder fares much better than if Sears Roebuck had paid out cash instead of stock.

In the Woolworth Company we observe the same policy being expressed in another form. Surplus earnings are put into new stores and these in turn help to swell the earnings of the big nickel-and-dime enterprise until the aggregate of stores and earning power is greatly expanded. In January of this year new stores established in only one year increased Woolworth earnings $900,000, or nearly 2% on Woolworth common.

Texas Company is an example among listed oil stocks, and of course a number of Standard Oil issues are famous for their melons.

Among the industrials we find Swift & Co. as one of the best instances, also General Electric and American Telephone & Telegraph.

These are the kind of stocks to tie to. Their guiding policy is give the stockholders a fair return in cash, while employing the bulk of the earnings for the development of the business.

Next to the character of the men who manage a corporation, it is important to know what policy is being pursued. With the right enterprise, the right man and the right policy, the investor need rarely make a mistake or suffer a loss.

"League of Nations Consolidated Debt"

WILLIAM OLSSON, one of the leading Swedish financial men in Stockholm, has devised a scheme by which the debts of all the belligerents incurred in the war, plus the debts incurred by the central powers in the shape of indemnities, are to be combined in a fund called "The League of Nations Consolidated Debt," writes Bassett Digby, correspondent for the New York *Globe* from Stockholm, Sweden. The debt would be jointly guaranteed by all the nations and jointly administered by them.

Though the matter is known to only a very few persons I am able to state that the Olsson scheme looks so worthy of attention that Minister Ira Nelson Morris recently sent it to Paris by a diplomatic messenger and had it submitted to a high official at the Peace Conference. This official now writes that the scheme was examined with keen interest and was receiving close attention.

"My proposal provides for the consolidation of the general war debts into a League of Nations Consolidated Debt," says Mr. Olsson, "provides a basis for the machinery necessary for a League of Nations, and provides for the conversion of the war loan bonds of the different countries into one common world security while retaining through the joint guarantee the guarantee of each separate country, which becomes, so to speak, a stockholder in the great League of Nations."

Trade Tendencies

As Seen by Our Trade Observer

This department summarizes and comments upon the tendencies in the more important trades as expressed in the authoritative trade publications and by recognized leaders in the various industries. As the general tendency in a given trade is but one of many factors affecting the price of the securities representing that industry the reader should not regard these Trade Tendencies alone as the basis for investment commitments, but merely as one of many factors to be considered before arriving at a conclusion.

He should also bear in mind that security prices as a general rule discount from three to six months the important changes in fundamental industries, just as the present market appears to be discounting favorable developments in the industrial situation which are not apparent on the surface.—EDITOR.

Steel

Agreement Near on Price Stabilization

When Secretary Redfield's proposal to "stabilize" prices in a lower plane was first announced, the majority of steel producers came out against the plan. In the last few days, however, it has become apparent that steel men are exerting every effort to arrive at a working agreement with the Government, as they realize that the Government is working for the producers' interest as well as the country as a whole. Opponents of the plan are still numerous however, and they argue that readjustment should take its course without interference. They point out that lack of business at present is not due to high prices, but to disinclination or disability of consumers to make commitments. Investment buying for example, is not held out of the market primarily because steel prices are high (although this is the chief factor), and even if builders were able to obtain steel at a low enough price to satisfy them, other conditions, such as labor, would not allow them to go ahead.

While the Government plan is near adoption, many steel men cannot see how the Government is going to differentiate between price fixing by "suggestion" and actual price fixing. Steel men are not the only ones who are opposed to the plan, but even large consumers have expressed thier disapproval. At this writing a definite policy has not been announced, but by the time this is published, we should know the exact terms of the agreement.

Trade Nervous Over Price Cutting Talk

It is becoming more apparent that a new price schedule must be inaugurated. The talk of such an impending move has accentuated the nervousness of buyers and has caused some small producers to attempt to get out from under at lower prices. The natural result of this situation is that prices have been shaded considerably in many instances and buying is spotty. A good demand is seen for miscellaneous steel such as the steel used by the automobile industry, stoves and tools, etc., but big buying is still lacking. A few orders are coming in for future delivery, but these are for from three to four weeks ahead.

Producers are by no means in accord as to the advisability of cutting prices. Some claim that a reduction would bring a large number of orders into the market but others contend that lower prices would only make buyers more cautious and in support of their argument they point to what happened in the copper trade. There is no definite means of determining which theory is correct as no one knows how much of a concession would be required to interest consumers to the extent of freer buying.

The trouble with the whole situation is, as far as I can see, that this is another case of interference with the law of supply and demand and when this happens, confusion is the usual outcome. It is commendable that some attempt was made to get back to normal in an orderly fashion, realizing that disturbances would result in a drastic change from one situation to another, but natural conditions are bound to be the determining factor in the end, and the sooner such a condition is realized the better it will be for all concerned.

The Labor Situation

From the employer's point of view, the ban on reducing wages has not worked out detrimentally. Realizing that their jobs depend upon efficiency, workers are giving a fair return for their wages with the result that the cost of production is being cut a little bit anyway. The result of this situation is not as satisfactory as it seems on the surface for labor, however, since with employing only the best and eliminating large numbers of ordinary employees there is a lot of idleness. Although labor is slow in recognizing any thing that will hurt it, there are evidences that it is willing to come off its "perch." High steel prices have benefited labor as much as capital, and the former will soon realize that it must make joint sacrifices. When it is realized that business cannot be obtained at high prices and that the only way lower prices

can be put into effect is through a reduction in the cost of manufacturing the product (of which labor is the principal cost), workers will realize that it is to their interest to allow such a condition as will create business, giving them work and keeping the plants going. While such a condition may be too optimistic to be hoped for, and it is logical that the readjustment must be brought about by forced liquidation, throwing thousands out of work and creating a temporary chaotic condition, attempts are being made to educate labor to this situation and the result may be better than looked for.

A direct appeal to labor to recognize the prevailing situation has proven successful in many instances. One large plant approached its men and informed them that a straight hourly rate would be paid in the future and the choice was given of working eight hours or twelve hours a day. Without the slightest hesitation the men reported that they would work the twelve hours at straight pay.

Undoubtedly the best and the most equitable solution of the problem lies in the reduction of wages. It is recognized that wage rates must be uniformly cut throughout the industry as otherwise the situation would be little different than it is today.

Not Much Export Business Closed

There are plenty of inquiries for export but actual closing of business is slight. Foreign consumers are generally awaiting a lower freight situation before making commitments on a large scale. It is now reported that large tonnage of semi-finished and finished materials for export sold during the war has not been moved on account of the inability to obtain vessels. In addition to the freight rate situation, the lack of bottoms is another factor that is holding up export transactions. This situation is being remedied daily, however, and a better feeling in this regard is manifested.

Coming back to Secretary Redfield's plan, we are of the opinion that it would be an interesting experiment but are not so sure of its success. The success of the whole plan hinges upon the attitude of labor, since producers will have to know what they will have to pay for turning out their products, so that they can be sure that they will be able to maintain the prices asked. Consumers are vitally interested in this phase also, as they must be assured against further reductions before they will make commitments, and this will only be brought about, when they see that producers cannot cut the prices further.

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Railroads

Serious Situation Threatened on Failure to Pass Appropriation Bill

When the former Director General of Railroads proposed that Government control be extended to five years and hinted that the alternative would mean turning the roads back abruptly to the owners, railroad men and those interested in the railroads, found themselves between "the devil and the deep blue sea." An extension of Government control to five years was regarded as a deplorable move, and on the other hand, owing to the condition in which the roads are at present, an abrupt return without proper protective legislation, would have been little short of a calamity.

For weeks after McAdoo offered his suggestion, the storm of contention beat around this plan, and not much was said of returning the roads properly. Public opinion has definitely established itself against extended Government control, which would mean in the eyes of the best informed railroad men and bankers, Government ownership, and now this plan is practically tabooed. The House committee after several hearings on the bill has tabled it indefinitely, and its confinement to the shelf at the time was excused by the statement that no further legislation could have been enacted if hearings were continued on this bill.

Now that public opinion has succeeded in establishing its wishes on the five year plan, attention is turned to the proper method of returning the roads. The public is beginning to realize that the principal reason for the Government's seizure and operation of the railroads, was not the in-

OPERATING RETURNS CLASS I RAILROADS

	1917	1918	Increase + / Decrease —	1918
Operating Revenues......	$3,988,827,671	$4,842,605,884	+ $853,868,213	(21.4%)
Operating Expenses.......	2,808,544,956	3,939,315,122	+ 1,130,770,166	(40.3%)
Net Revenues............	1,180,282,715	903,380,762	— 276,901,953	(23.5%)
Federal Net Income......	*960,492,111	688,200,083	— 272,292,028	
Operating Ratio..........	70.4%	81.3%	+ 10.9%	

Standard Return, 1918 = $890,385,685
Federal Net Income, 1918 = 688,200,083

Annual Deficit.........$202,185,602

*The equivalent of Federal net income.

ability of the roads to handle the business, if they could do so unhampered, but years of destructive legislation had built up insurmountable barriers to efficient and scientific operation.

The public is beginning to realize also that Government operation has been a failure from every point of view. Service is inadequate, courtesy is lacking and on top of it all the people of this country in addition to paying high rates for transportation, are forced to dig down further into their pockets and pay a large deficit. No one denies that if private owners ran their roads during the war and were given the privilege of increasing rates to the same extent as the Government and best of all removing the onerous laws and regulations, no such result would have been seen.

Congress Fillibuster Raises New Questions

A few days before the last Congress ended Director General of Railroads, Walter D. Hines, in a letter to the House and Senate Committees, declared that there would be no reliquishment of the roads "until there had been an opportunity to see whether a permanent program of constructive legislation is likely to be considered soon." Mr. Hines stated that he had discussed the situation with the President and came to the conclusion that a definite program of constructive legislation must be considered and adopted before such a move is made.

This rift in the clouds was soon obliterated by the failure of Congress to pass the bill appropriating $750,000,000 additional to the railroad revolving fund and has pushed the railroad situation further back than ever before. To make matters worse, the President has announced that an extra session of Congress will not be called until he returns to this country and that date is generally placed at about June 1st.

That the railroad administration is in a dilemma is obvious. Current net earnings of the railroads are falling far short of current accrual of Federal compensation. The railroads have $380,000,000 coming to them from 1918 as the balance of their compensation for the year after various deductions against capital expenditures. To meet this debt, the revolving fund has $50,000,000 left. So far indications are that the railroad administration is getting further in the hole this year. As based upon January reports, net income for all the roads will be about $25,000,000 whereas the Federal guarantee calls for around $75,000,000 monthly.

It is of course possible that a temporary solution will be evolved pending the actual allowance for the appropriation required to carry out the Government's contract. One authority suggests that the railroad administration issue a recognition of the companies, accrued claims which would enable them to borrow in the banks against their deferred income. Some companies will be able to borrow without this aid, but certainly something must be done as soon as possible.

Both the railroads and the railroad administration are placed in an embarrassing position. The much needed improvements, extensions and betterments program cannot be put into effect until this money is available and besides depriving the roads of needed equipment, the equipment companies will be forced to wait not only for new orders but for payment on equipment delivered on orders placed last year.

Raising rates is another possible remedy, but rates now are as high as the traffic will bear, and a further increase would probably result in a decidedly smaller volume of business. Mr. Hines seems to be against this policy anyway.

The railroad situation has changed abruptly on this new phase. For a while it looked as though better things were ahead but recent developments have blasted, temporarily at least, all of these hopes.

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Copper

No Stabilization Yet

When copper prices once began to fall away from the artificial level, the recession was rapid. Stabilization is lacking yet, and business is still scarce at the present comparatively tremendous concessions. Large selling agencies are making a strenuous effort to fix 16c as a minimum, but several small dealers are quoting 15½c and some of them offering at as low as 14½c. As surprising as it may seem, no business of consequence is being obtained and sellers are wondering when the deadlock will be broken.

As a recorder of the tendencies of the trade, suggestions as to what to do or what should have been done are probably irrelevant but it certainly appears as things have turned out that a combine by understanding to hold the price of the metal at a rather high figure has resulted in just the opposite effect than was expected. By refusing to allow the market to take its normal course, buyers were frightened away at the high level, and when the smash came they still refused to believe that some further pre-arranged plan was in order and therefore are as uncertain as to the next move to make as when the metal sold 8c higher. Large consumers are afraid to offer even 15c or 15½c for big quantities as they are sure that their bid would be filled immediately. As a result the market is practically bare of inquiries at the present time.

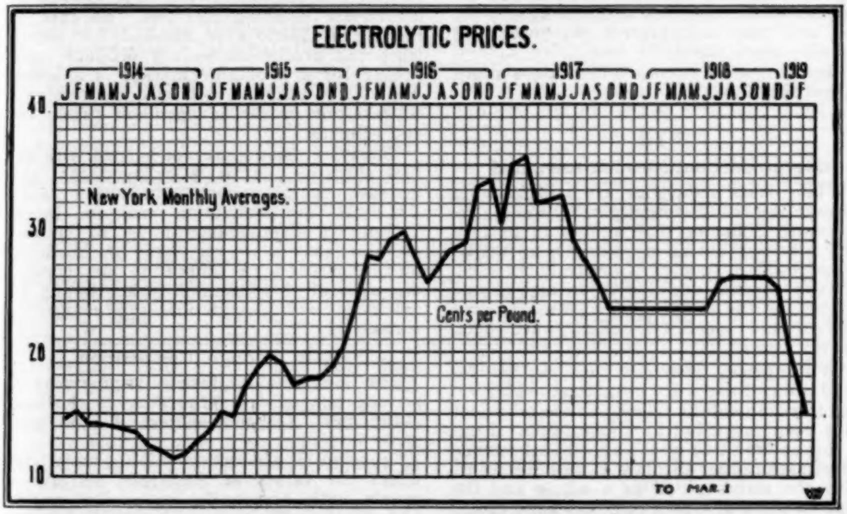
An Unprecedented Situation

No such unsettlement in the copper market has been seen for several years. In the past when the metal has been offered down, buyers have appeared to take some of these

offerings, but now in addition to price cutting, there seems to be no demand at any level. History will probably repeat itself in that buyers will continue to hold off for a little less, and then the tension will be broken on the buying side by a commitment being made for large amounts of the metal at the market price. This will loosen the pent-up demand and while an advance in price is not looked for owing to the vast quantity of the product on hand, the price will be stabilized at a certain level.

Several large buyers have stated openly that 14¾c or 15c was enough to pay in light of present conditions and that they would hold off until this level was reached. Whether these consumers will hold off in face of a firm market at present quotation is difficult to say.

It is true that many of the smaller companies have shut their mines and while this helps the situation generally it must be realized that the larger companies are producing copper and adding to the already large surplus of the metal. Not much is being taken off the market and if buyers do not see their way clear to make large purchases soon, a further cut, even if it was only for the purpose of making a temporary clean up of the stock, would not be surprising. The large Government stock is still overhanging the market and several plans for its disposal have been offered. The best one so far is the proposal to allow the larger selling agents to dispose of the stock at such time as they believe the market is in a position to absorb it. If this plan were adopted a great deal of anxiety would be eliminated on the part of both the buyers and sellers as at present it is constantly feared that the Government might eventually decide to dump its supply on the market regardless of whether it could be consumed easily or not.



The Troublesome Export Situation

In face of all other difficulties that are being experienced, the export end is a sharp thorn in its side. When the Copper Export Association was formed, a price for the metal was fixed at 23c for export and as most of the foreign selling must go through this combination's hands, it is no wonder that there is no inquiry from other countries at the fixed level when the price in this country is from 7½c to 8c below that figure. Foreign buyers are just as wise as we are, they were and are perfectly aware of the surplus copper situation and were quite sure that if they held off, they would get the metal at lower prices. Whatever demand there is in foreign countries (and we are beginning to discover that it is not as large as many of the leaders of the trade tried to make us believe at first) will not come into the market until prices are stabilized. Leaders in the trade are generally of the opinion that very little export business can be had unless the price which is quoted for overseas shipment very nearly approximates the domestic selling price.

A Plausible Theory

The more one studies the action of the copper market the more one becomes convinced that something more than ordinary factors are at work. Isn't it possible that the big selling agencies have their eye on

the large Government supplies and are interested in purchasing this supply as cheaply as possible? What is the logical course to pursue if this is the plan? The answer is simple: create a situation as bad as possible. Point to huge stocks of surplus metal with no apparent outlet. Show that many of the country's mines are forced to close down altogether, others to run at 50% or less of capacity and to cap the climax show that there is no buying no matter how low the price goes.

In face of this situation Government stocks are overhanging the market. Buyers and sellers are afraid that these will be dumped indiscriminately. The trade is thereby in great confusion. What shall be done? Why, let the Government sell its supplies to the agencies at a low figure, say 12c., and they will protect the trade and stabilize the industry.

This is a mere theory. Is there a more logical solution?

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Oil

Overproduction Question Answered

While other industries are still groping through the readjustment period, some having more difficulty than others in getting their bearings, but all more or less unsteady, the oil trade is striding confidently forward. Activity has not declined to an appreciable extent, and the first steps on plans for production and increased selling have been taken.

So far prices have not been cut for refined oil, and there are no indications as yet that this step will be taken. Crude oil prices have been cut, it is true, but we pointed out in this column two weeks ago that the crude oil situation has absolutely nothing to do with the status of oil as a whole and the drop in price of Gulf Coast and Pine Island heavy crude was due to a temporary overabundance and a sharp and entirely unlooked for curtailment.

Oil men are universally optimistic as to the future. They give innumerable reasons why oil should be in increasing demand for many years to come. Here and there, however, is voiced a note of caution as to overproduction. Not oil men but impartial observers believe that with the rush of new production in this country, Mexico and South America and the opening up of the Russian and Rumanian fields, the world is liable to have too much oil for its current needs. Oil men are quick to challenge this point of view. When the question as to the danger of overproduction was put to a well recognized authority on oil by the writer, he said:

"The question is frequently asked as to the danger of overproduction in the development of new fields in different parts of the world. The answer is that those familiar with the industry have the fear only of the ultimate shortage of petroleum to requisitely serve humanity's needs. Vast quantities of oil must be carried in tankage and underlying crude must be surveyed with a view of the future as well as for immediate demands. Expert geologists have covered carefully the principal portions of the world in search of favorable oil geological structure, and it is their opinion that the future crude supply will be very scant within the next fifty years. Over three-fourths of the high-grade oils of the world are produced in the United States. For a very short period there may exist from time to time a slight local overproduction due to inadequate shipping facilities. Because of the recent world-wide demand for petroleum the protection to the producer and refiner for a profitable market is assured. The day is past for a drastic monopolistic squeeze-out of the independent producers and refiners."

These statements are not backed with actual statistics, but it is believed that the general principle is correct and that no such thing as overproduction will be faced. Temporary overproduction is, of course, possible; that is, we may have too much oil on the market for a short time, but increasing uses of this commodity are bound to catch up with production and eventually surpass it.

As to Foreign Competition

The "bugaboo" of foreign competition is an ungrounded fear according to the best authorities. On this subject this oil man said:

"Foreign oil production will not materially affect the values of American oil investments with constantly increasing world-wide demands for high-grade oil. Within five years oil will be selling for $5 a barrel in the United States. The entire new development in Texas does not exceed one-fourth of the maximum production of the Cushing field in its palmiest days; and the additional prospective production in Texas will not seriously endanger the oil trade. The entire mid-continent oil fields, including north Louisiana, north Texas, Kansas and Oklahoma, all together produce but three-fourths of the output of the Cushing pool in 1914. New oil fields are greatly desired for the betterment and happiness of the world, and appropriate legislation should be adopted to safeguard both petroleum and gas from wanton waste."

Oil's future is undoubtedly bright, and the best of the oil situation is that reconstruction and readjustment difficulties are not large. The oil industry is essentially a peace time industry.

Shipping

The Government Angle

He who dared to question the war program, the railroad policy or shipping activities of the Government during the war was looked upon as an undesirable if not dangerous citizen. And probably this was a condition to be desired. The United States could not be hampered in its strenuous prosecution of the war, the aftermath notwithstanding. But now the situation is reversed, we are all stockholders in the "United States Government Corporation" and the firm's business must be conducted to the best interests of the stockholders or a reason must be produced.

What about the ship-building program? Other war activities have ceased as abruptly as it was possible to terminate them, vast expenditures in this direction eliminated daily but the merchant fleet, unsound as a business proposition, goes on, like the babbling brook, forever. The Government is continuing to acquire billions of tons of merchant shipping and the situation is becoming more bewildering daily. Theories and more theories, flowery promises for the future and hazy myriadical pictures are all that can be gotten from official sources. If there is to be an end there is no indication of it and building of ships of doubtful value at prohibitive cost goes merrily on.

When the shipbuilding corporation was formed with a capitalization of $3,000,000,000, the shareholders, consisting of one hundred million American people, agreed that ships were necessary to win the war and that boundless losses could be suffered for an indefinite period. That was all right as far as it went, but with keen, every day business coming into its own again, how long will the American people stand for it? It is all right to have a great merchant fleet, but in order to make that fleet successful, markets must be found, sufficient cargo to fill the ships must be obtained and most important of all, it has to be proven that these ships can be operated by the United States Government at least with no loss.

What is really happening is that instead of aiding American shipping, ship-owners in this country may be forced to retire from business or be obliged to transfer their ships to foreign registry to make profitable operation possible.

As an offset to inferior Government operation of a huge merchant fleet the Shipbuilding Corporation offers the following solutions: "Quantity production will offset higher cost of American shipbuilding." "Greater operating expenses will be offset by quick turnovers and improved methods of handling cargo." "Standardization of seaman's wages all over the world," etc.

The discourse could be continued at length, but it is useless. Suffice to say that Government theories are bubbles from an economic point of view and that eventually they will suffer the inevitable collapse. Meantime American ship owners, exporters and the people of the United States generally are vitally interested in the ship program and await a definite announcement of the tainty.

Conditions within the shipping industry are far from settled. A drastic cut from $30 per deadweight ton to $12 was made on tonnage between the Pacific coast and the Orient. This and other reductions do not wholly satisfy shipping men however, since they claim that reductions have not been uniform and since the shipping board has failed to allocate bottoms so that the reductions have been ineffective. Vessels are being turned back as rapidly as possible and the situation should be straightened out soon.

FOREIGN TRADE OF THE UNITED STATES

	1918	1917	1916
Exports, merchandise	$6,149,392,647	$6,233,512,597	$5,482,641,101
Imports, merchandise	3,031,304,721	2,952,467,955	2,391,635,335
Excess exports, merchandise	3,118,087,926	3,281,044,642	3,091,005,766
Exports, gold	41,000,000	371,883,884	155,792,927
Imports, gold	62,000,000	552,454,374	685,990,234

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Public Utilities

Necessity for Relief Dawning on Public Officials

That the laborer is worthy of his hire has been the platform for years of public-spirited politicians, and now it is dawning on great numbers of these gentlemen that the term "laborer" covers the whole field of service regardless of form. Perhaps the pressure of public opinion or the tardy realization of a basic fact is convincing those who have the power of "thumbs up or thumbs down" over public utilities that this service is entitled to be recompensed properly as is any other kind of service, and unless a living wage is granted public utilities must necessarily languish and die.

There are many indications that better days are in store for public utilities. Slight relief is now being secured through a decline in the cost of some of the factors entering into the operation account, but this is by no means a cure for the greater ills, and the greatest hopes are based upon the change of heart of regulating bodies. It is very generally realized that public utilities cannot expect to come back strong through the decline in cost of operation, as it is realized that it will be a long time, if ever,

before maintenance, labor, etc., approach the level from which they started to rise. Further, it has been demonstrated clearly that public utilities could see their way to operations with a fair return only as based on pre-war costs.

Our readers are well aware of the difficulties under which public utilities have been struggling since the war began. Wages advanced 50%, the prices of all materials entering into construction rose from 100 to 200%, with the result that about 300 utilities showed an increase in operating expenses from 61% of gross in 1915 to between 70 and 75% in 1918. All of this in the face of a stationary income which had the natural result of depreciating net to a bankruptcy basis in many cases.

Even the American public, which can never be accused of unfair play when the facts are realized, has been slow in recognizing the obvious. Probably this lack of comprehension on the part of the public is due to the deep-rooted ideas, spread by yellow journals and demagogue politicians, that public utility corporations are always grasping and seize every opportunity to abuse the public. When the average American is shown that he will gladly pay excessive prices for food, drink and housing, and it is pointed out that this is a condition brought about by an economic situation, he will admit that public utilities corporations are not as grasping as they seem when they ask a living wage. It is about time anyway that corporations of this character begin a campaign of education and discard their policy of aloofness. Scorning to refute the onerous statements made by irresponsible parties avails them nothing, and following the lead of the New York tractions other companies are beginning to present their side of the story to the public.

No better proof of a change of heart by public officials is afforded than by statistics showing increases of rates or allowances to obtain income from other sources during the last six months. According to statistics by the National Committee on Public Utility conditions, state commissions in the last three months of 1918, acting on 305 cases, granted straight increases in rates in 263 cases. For the six months ended December 31, 1918, increases in rate schedules in 627 cases were granted by State commissions, while denials for increases were made in only 23 cases. Other sweeping increases were granted to electric light and power companies, electric railways and other public service corporations. These increases were not confined to any particular locality, as rate increases were granted by commissions in twenty-nine States.

While Public Utility ills have not yet been administered, it is obvious that the corner has been turned and that better days are ahead.

Grain

What Will Be Open Market Quotation for Wheat?

Probably the outstanding feature of the very much muddled wheat situation is the question, What will wheat bring in the open market under peace conditions? The trade is almost unanimous in the opinion that prices will not go back to the pre-war level of between 75c. and 85c. a bushel for many years to come, if ever. Argument in support of this theory is a general one and applies to the opinion generally held that prices for all commodities after they have reached their maximum decline will not touch pre-war figures. Living conditions have changed, and we are so accustomed to a higher scale that a return to pre-war conditions seems impossible.

While we will not attempt to establish our views one way or another on this particular question, it is certainly evident that wheat prices must and will come down. It will be a long time before normal conditions prevail, however, as the Governments are still in the market, and until these stocks are liquidated supply and demand will not experience free play. Great Britain, France and other European countries hold large stocks of Australian and Argentina wheat, and it is estimated that it will take a year or so before these accounts can be cleared up.

Prices and Conditions in Other Lands

In Australia wheat is selling around $1.55 a bushel. Estimates place Australia's wheat holdings at 200,000,000 bushels, of which a large part is owned by the British Government. Every effort is being made to boom Australian wheat as, first, Australia's facilities for storing the commodities are inadequate and, second, the European nations are in need of wheat and, of course, are interested in obtaining it at the lowest price possible and from their own colonies if possible. Ships are now on the way to carry over 25,000,000 bushels of Australian wheat to England.

The Argentine Government has fixed an export price of $1.53 a bushel on wheat in that country and is going to try to hold to that level. Every day sees an increase in the number of ships sent to Argentina, and as freight rates are easing off the price for that wheat may come down. In the meantime substantial recessions in the price of wheat are recorded in England—$1.67 is the price set on the new crop, and next year this is expected to be cut to between $1.35 and $1.37.

As has been pointed out repeatedly in this column, the United States is going to have some trouble forcing its wheat on foreign countries at a high price. Already there are indications that foreign countries will buy only what they absolutely need from

us and make a strenuous effort to obtain the bulk of their supplies from other sources. This country has a tremendous surplus of "exportable" wheat, and as there has been no regular agreement made with England or France for purchasing any of the next wheat crop, it is likely that a large part of it will have to be disposed of locally.

The only class of people certain about their future in the wheat situation is the farmers. Optimism prevails among them, and they are bending every effort toward raising a huge crop and making the last great "killing" of the war's profit possibilities. The size of the crop undoubtedly will be tremendous, and under normal conditions, of course, the price per bushel would be proportionately low.

What the final plan of wheat distribution will be and the price at which it will be distributed, no one can foretell. The whole country is anxiously awaiting some announcement on this subject as the entire scope of business activity is more or less directly affected thereby.

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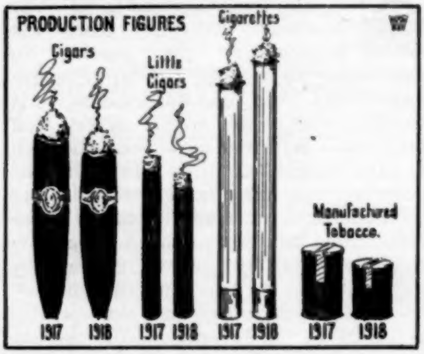
Tobacco

Better Activity Seen

The "stand off" between buyers and sellers which was a result of sellers refusing to see why they should make any cuts in their prices, and buyers, on the other hand, just as determined that some concessions should be made, is less apparent. A fair basis for trading is being reached, and while the trade cannot exactly be called active at this time, there is a much better tone than has prevailed since the armistice was signed. Sales of Havana, Sumatra and Porto Rico varieties are reported in fair volume, and recently there has been a distinct revival in activity in the Connecticut district.

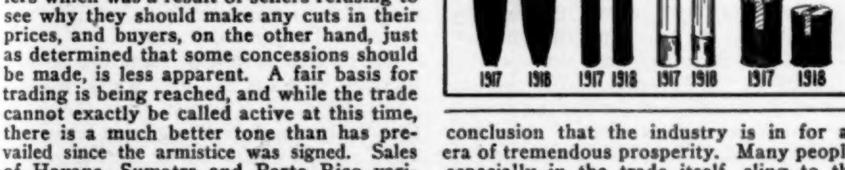
That good days are ahead in the tobacco industry cannot be denied. We have covered quite extensively in these columns the various factors that point definitely to activity on an unprecedented scale as soon as the temporary readjustments that must be faced by all are out of the way. It is hoped, however, that farmers in this country will not become too optimistic and go in for raising tobacco on a much more liberal scale than heretofore. The Agricultural Department has issued a statement advising farmers in the South and elsewhere that this is not the proper course to pursue, and points out that any considerable increase in production over the 1918 crop would be followed by a decline in market prices, regardless of the quantity of tobacco likely to be consumed abroad. It must be realized that the largest crop of tobacco that the country has ever produced is on the market now, and the very high prices now being obtained are due solely to war conditions. The Agricultural Department states further that the country has grown three large crops in succession, and while consumption has increased notably, a larger crop this year would probably result in some overproduction.

The writer is a firm believer in the forecasting ability of the security markets, and the action of tobacco issues leads to the



conclusion that the industry is in for an era of tremendous prosperity. Many people, especially in the trade itself, cling to the theory that when prices for tobacco stocks are on the upgrade this is a reflection of present or past conditions. Years of experience has proven that this is not the case, and when an industry's securities are in great demand, the situation will be favorable for the industry from three to six months in the future. Wall Street is quick to preconceive industrial conditions and generally has a good hold on an industry's securities before the actual benefits are reaped.

Trade conditions themselves, however, point to a prosperous condition, and it is believed that the tobacco industry will go through the reconstruction period more rapidly and with greater ease than others.



PUBLIC UTILITIES

Have the Utilities Turned the Corner?

War's Effect On Their Earnings—December's Remarkable Increases In Net—Operating Ratios On the Down Trend At Last

By H. S. SCARRITT

A PHENOMENON to be observed among those engaged in the War is that everyone feels his branch of the service to have been the worst. The attitude approximates that of bondholders. It would therefore be untrue to say that no class of securities is viewed with such disfavor as public utilities. In their case, however, the many unfavorable factors were perhaps over-advertised. It was clear that they were placed in a particularly disadvantageous position by fixed rates on the one hand and inflation of costs on the other, and innumerable petitions to public service commissions painted the situation in the darkest colors. The marketability of their bonds, not usually among the most active issues, was seriously affected by declining prices and successive offerings of Government loans. This has resulted in a feeling very much to the prejudice of public utility securities as investments, and if based on false assumptions, works hardships upon the seller of such issues to the corresponding advantage of the purchaser. With the reports of a great many of the largest public utility concerns now available for 1918, it is possible to determine the truth about public utility investments, how they actually fared during the War, and what their present position is.

1918 Combined Earnings

In the first place, as to earnings, the first graph shows gross, net after taxes and surplus after charges, for the five-year period, 1914 to 1918, inclusive. By a "judicious" selection, it is of course possible to show almost anything. The inclusion of Cities Service with its oil earnings would more than counterbalance the unfavorable reports of a dozen small concerns. The figures used represent the combined statements of practically all strictly public utility companies which have reported over a million dollars gross earnings in 1918 and comprise nearly 300 operating companies scattered throughout nearly every state. There is no reason to suppose that earnings of these companies are not a fairly accurate indication of the entire public utility situation in the United States.

There has obviously been the steady increase in gross earnings which was to be expected. It is evident from the chart that the average operating ratio remained approximately the same during 1914, 1915 and 1916, so that a 16% increase in gross earnings during the period was attended by an equivalent increase in net. As fixed charges did not increase in the same ratio, the gain in surplus after charges was proportionately greater. During 1917 and 1918 gross earnings went ahead at an even faster rate, but the average operating ratio advanced from 58% to 71.5%, resulting in net earnings decreasing to a figure a little above the 1914 level, and a surplus after charges slightly below that for 1914.

Light and Power Earnings

The greater part of the combined earnings here shown are those of traction companies, however. In their case increased wages and decreased efficiency of labor subjected them to additional hardships comparable with those of the steam railroads. The earnings of electric

light and power companies have therefore been charted separately. Available earnings of these companies constituting about one-third of the combined totals, the figures have been multiplied by three to make comparison easier, and are shown by the dotted lines. It is rather surprising to note that net earnings of the electric companies have actually increased during the past two years in the face of very much heavier costs of operation, while the surplus over fixed charges has remained almost the same. It is apparent that the efficiency of central station power companies has enabled them to overcome unprecedentedly unfavorable conditions. Although the other classes of public utilities, particularly the tractions, could not be expected to make so good a showing, it is of interest to note that the extraordinarily high operating ratio, together with the actual fixed charges of 1918, could be applied against the 1914 gross and there would still be a surplus. The funded debt of traction companies is probably in a stronger position than is generally thought.

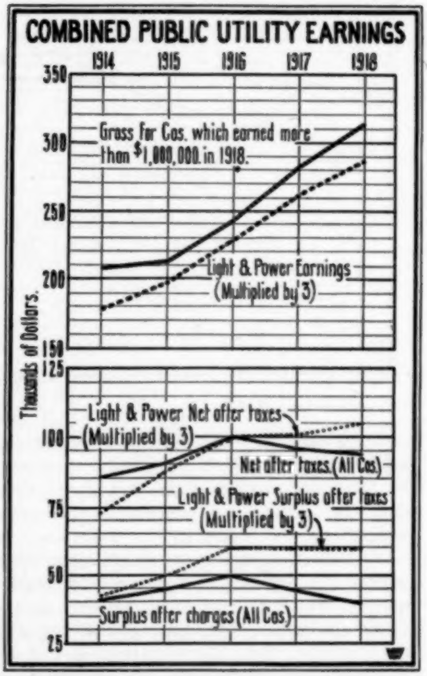
Long Term Bond Prices

In connection with public utility security prices during the same period, the second graph shows the fluctuations of the long term bonds of the same companies. The black line indicates the combined averages of all and the dotted line those of the light and power companies. Practically all classes of bonds followed the same general course. The very much greater rise in electric company bonds last fall was in recognition of the fact that these concerns had safely weathered the storm while many of the traction problems were still to be settled.

It is to be remarked that railroad bonds have fluctuated to about the same degree as public utilities. In spite of the sustaining factor of Government-guaranteed return, the holders have seen the same depreciation from the high prices of early 1917. Ten railroad bonds for example, averaging 93 in February, 1917, are now about 83, and this is approximately the range of the public utility issues. The investor in light and power company bonds in most cases has a security selling not much below the prices of early 1915, before the general rise took place, and has probably suffered less from declining markets that the average railroad bond-holder.

The bonds of industrial companies have of course felt the benefits of greatly increased earnings. The fact is, however, that just as they rose during the War on that account, often directly counter to the general trend of the bond market, many may decline because of decreased earnings in the future, while the bond market is reflecting, by higher prices, declining commodity prices and lessened Government requirements for capital.

The difficulties facing the railroads are



well known, but it was nevertheless something of a shock when most of the important roads reported a deficit after paying operating expenses and taxes for December, and these expenses are to be increased by even higher wage scales. On the other hand, an examination of the December statements of public utility

concerns shows remarkable increases in net over December, 1917.

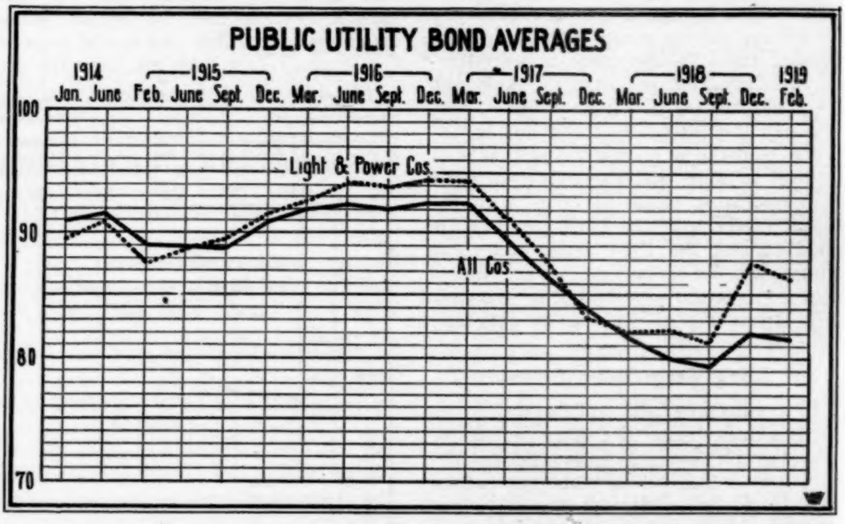
Operating Ratios Downward at Last

In many, and perhaps the majority of instances, net increased in greater proportion than gross earnings, indicating that operating ratios are at last on the downward trend. The prices of material, such as copper, have already sharply declined, and while wages may not go lower for some time, efficient labor is certainly more easily obtained, so that decreasing costs for some time can confidently be predicted for most well-managed concerns.

There are companies which have been placed in serious difficulties by inadequate maintenance, mainly because of insufficient rates, but taking the country as a whole, the rate situation is one of the most important reasons for optimism.

Traction companies have obtained greater fares in the majority of cities. It was recently stated that 627 rate increases had been granted public utility concerns by State Commissions during the last six months of 1918, while there had been but 23 refusals.

The attitude of a man toward public utility investments is very frequently determined by the local utility situation. The difficulties of the street railway or gas company in his city may prejudice him against all public utility investments. It is natural that this should be so, and yet it often leads to conclusions which a broader view would show to be unwarranted. The truth about public utility investments is that their record shows them to be worthy of confidence, and that their future is decidedly bright. A consideration of the entire situation should convince one that a prejudice against them is likely to rob him of the opportunity of taking advantage of some of the most attractive investment opportunities that are offered today.



United Railways Investment's Interesting Prospects

Unofficial Version of Proposed Settlement of United Railroads of San Francisco Traction Tangle—Preferred Stock an Attractive Specvestment

By BENJ. R. STEELE

RECENT activity in the erstwhile dormant issues of the United Railways Investment Co., has called attention to the company. As will be seen by the graph herewith, both the preferred and common stocks established new highs over their 1917 and 1918 figures, which, coming after the prolonged decline previously, would lead to the prima facie assumption that the turn in the company's affairs had been reached, or at least that matters are on the up-grade.

Elsewhere in this issue will be found an article discussing the public utilities in general. Mr. Scaritt, the writer, who, besides being a careful observer, is in a particularly well placed position to read the trend of utilities, is of the opinion that the public utility situation, speaking generally, is on the mend. In his opinion the maximum low point was reached in the last half of 1918 and the improvement began in November and December of that year.

A Top-Heavy Capitalization

The fundamental trouble with United Railways Investment is that it labors under a top-heavy capitalization and funded debt, to wit:

Funded Debt	**$18,094,000**
Preferred 5% Cum.	**16,000,000**
Pfd. Div. Cert.	**1,462,500**
Common	**20,400,000**
Total	**$55,956,500**

During the last ten years at no time has the company's total income (United Railways is a simon-pure holding company) exceeded more than 5% of the above total capitalization, including bonds. The best year of the decade, 1912, showed a total income of $2,260,000 in round figures, or 4% on the total capitalization and a balance on the preferred stock of 6.1%. In only three years of the ten was anything earned on the common stock, and in each year the balance for the common was equivalent to less than 1%.

The chief items of the income account for the last ten years are given in the table herewith. This table shows what a large percentage of the company's income went for bond and note interest. In the ten years total income was about $19,000,000, of which bond and note interest consumed approximately $11,000,000 or 55%.

After other deductions, the balance available for preferred dividends totaled during that decade, approximately $7,000,000, equivalent to 44% on the $16,000,000 stock, or an annual average of 4.4% earned on the senior issue.

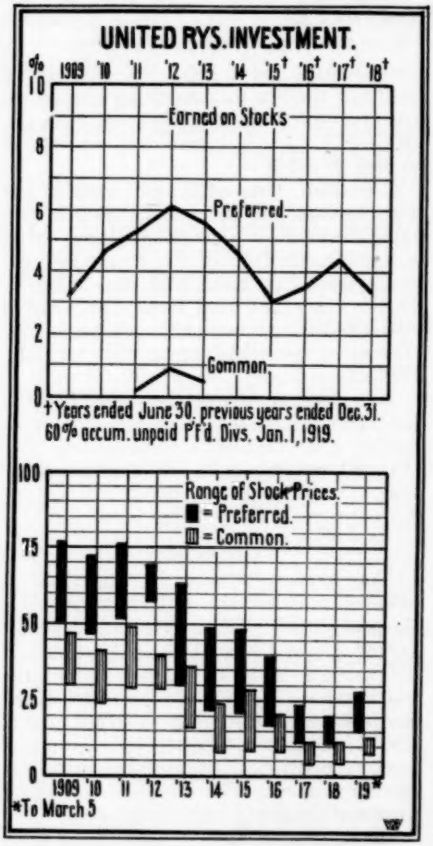
Dividends

The company was incorporated in 1902, and in its earlier days managed to do pretty well. The preferred stock received 3% in 1903, 3¼% in 1904, 4% in 1905, 9¾% in 1906 (on account of the earthquake, 7¼% in interest-bearing scrip was paid instead of cash), 2½% in 1907 (payable in scrip), and after that preferred dividends ceased and have not been resumed. The common has never received anything from earnings.

To date, then, since the preferred stock is cumulative, there are 60% of unpaid back preferred dividends. During the decade under consideration, the company carried to surplus approximately $7,000,000. Let us see what happened to these earnings.

At the end of 1908 the company's funded debt totaled nearly $22,000,000, and at the end of 1918 approximately $17,700,000, which accounts for approximately $4,000,000 earned and passed to surplus. During the last two years the

company has established a reserve fund for losses on securities, which totaled at the time of the last annual statement, nearly $2,000,000. Other reserves bring the total to $2,155,000 in round figures, which together with the reduction in bond interest, accounts for approximately



$6,000,000 of the $7,000,000 under consideration.

It appears, then, that the aim of the management for the last ten years has been to get the United Railways Investment into something like a shipshape condition by reducing the incubus of the funded debt, and writing down the book assets to something like real values. How far the process must proceed, is, of course, impossible to state with exactness but the fact remains that the profit and loss surplus, which stood at a little above $1,000,000 at the end of 1908 totaled $7,264,000 at the end of 1918.

Companies Owned and Controlled

To go into details of the United Railways Investment's holdings would require many books the size of THE MAGAZINE OF WALL STREET's semi-annual bound volume. We may recapitulate, however, in brief.

The company was incorporated in New Jersey in 1902. It owns or controls directly or indirectly, $5,134,000 of the preferred stock and $34,160,700 of the common stock of the California Railway & Power Co., which owns or controls the following companies: United Railroads of San Francisco, Sierra & San Francisco Power Co., Coast Valleys Gas & Electric Co., and San Francisco Electric Railways. It also controls through ownership of securities the Railroads & Power Development Co. and the Philadelphia Co. (analyzed in our Feb. 15, 1919 issue).

Chiefly Dependent on Philadelphia Co.

United Railways Investment owns $24,555,000 par value of the $42,943,000 (par $50) of the outstanding common stock of the Philadelphia Co. Last year this common paid $3, so that on its holdings of 491,000 shares, United Railways received $1,473,000, or more than 86% of its total income. It appears, then, that United Railways' other subsidiaries do not bulk very large in its earnings column.

While the general public utility situation is more favorable, and while the Philadelphia Company looks for better earnings, the most important immediate factor in the company's affairs, is the United Railroads of San Francisco situation. As is well known, this company, controlled by United Railways Investment, has had a municipal traction situation on its hands for some years comparable to the Cleveland traction situation or the embroglio in New York. To go into the matter in detail would be too great a

tax on the reader's patience, as the whole affair is exceedingly complicated and has existed over a period of years.

Sufficient to say, that now the entire controversy between the company and the city of San Francisco appears to be on the eve of final settlement.

stock. It is also stated that when the terms of the settlement are ratified, a plan will be worked out to take care of the 60% accumulated preferred dividends.

On its record, the preferred stock is not entitled to a good investment rating, but on its prospects, it is entitled to be

UNITED RAILWAYS INVESTMENT CO.
(Condensed Income Accounts)

	Divs. on Stocks Owned	Total Income	Bal. for Bond Int.	Bond and Note Int.	Net Income	Surplus per Year
1909....	$1,802,672	$1,830,685	$1,766,264	$1,102,500	$512,350	$512,350
1910...	2,044,672	2,109,562	2,034,538	1,121,515	766,468	766,468
1911...	2,044,672	2,136,536	2,065,999	1,128,240	840,826	840,826
1912...	1,984,172	2,260,250	2,181,182	1,104,240	989,645	989,645
1913...	1,998,850	2,134,224	2,070,497	1,072,700	906,339	906,339
1914...	1,808,688	1,949,199	1,869,187	1,031,450	721,209	721,209
1915...	1,584,788	1,749,826	1,672,089	1,018,500	489,920	489,920
1916...	1,590,686	1,766,226	1,692,483	1,115,321	577,162	577,162
1917...	1,718,850	1,891,583	1,807,142	1,092,339	714,803	714,803
1918...	1,534,687	1,703,508	1,613,238	1,162,523	540,715	540,715

One unofficial version of the proposed plan of settlement, states that under its terms, the company will receive the equivalent of $4,000,000 from the city for its railways and $3,000,000 for a power plant. This would be equivalent to 43% on the $16,000,000 outstanding preferred

regarded as a specvestment with interesting possibilities. Those in closest touch with the situation have been steady purchasers of the preferred below 25.

The common, of course, has little intrinsic value, and its prospects are purely speculative.

MARKET STATISTICS

			Dow-Jones Avgs.		50 Stocks			No.
		40 Bonds	20 Inds.	20 Rails	High	Low	Total Sales	Issues
Monday,	Feb. 24.......	78.18	84.75	84.05	74.86	73.74	929,800	267
Tuesday,	" 25.......	78.04	84.26	84.04	74.28	73.58	670,700	230
Wednesday,	" 26.......	78.02	84.93	85.03	74.96	73.78	944,300	246
Thursday,	" 27.......	78.08	85.17	85.08	75.53	74.47	895,900	227
Friday,	" 28.......	78.01	84.30	84.70	75.06	74.13	804,400	228
Saturday,	March 1.......	77.93	84.84	84.71	74.83	74.19	395,500	197
Monday,	" 3.......	77.93	85.58	84.88	75.51	74.64	767,600	258
Tuesday,	" 4.......	77.78	85.16	83.65	75.15	73.94	839,800	242
Wednesday,	" 5.......	77.60	84.24	82.78	74.66	73.58	798,900	226
Thursday,	" 6.......	77.45	85.64	83.33	74.71	73.70	790,800	226
Friday,	" 7.......	77.56	86.23	84.13	75.60	74.73	1,044,800	244
Saturday,	" 8.......	77.57	87.27	84.66	76.13	75.39	753,700	225

Bargain Indicator of Public Utilities

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvements of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. A poor stock may sometimes stand up well in this table because its price is low compared with latest available earnings.

INTENDING PURCHASERS should read all notes carefully and consult "Financial News and Comment." We gladly answer all inquiries of yearly subscribers.

	High 1916 to	Low Date	Present Div. Rate	Yield on Recent Price	Dollars Earned Per Share 1915	1916	1917	1918	Recent Price	Earnings Last Fisc. Year on Recent Price	
Brooklyn Rapid Transit	89	18⅞	0%	0.00	7.40	7.53	6.97	5.52	23	24.00	Assessment discussed.
Am. W. W. & El., 1st pfd.	...	...	7	10.77	9.57	10.18	12.96	10.73	65	16.50	Showing up well.
Amer. Pub. Util., com.	...	...	0	0.00	3.83	5.35	7.18	3.86	25	15.44	Outlook brighter.
United Ry. Inv. pfd.	39⅜	10⅜	0	0.00	3.06	3.54	4.46	3.38	26	13.00	Important developments pending.
Phila Co., com	47⅝	21½	3	8.57	4.44	5.14	6.22	4.26	35	12.17	New financing.
Detroit Edison	149	98	8	7.27	13.70	14.61	10.28	9.08	110	8.25	Large equity in property.
Mackay Co., com	91	70	6	7.69	5.28	5.36	6.35	5.87	78	7.52	Government decrees seem harmful.
Third Ave. Ry., com	68½	12⅜	0	0.00	4.19	5.98	—9.78	—2.06	15	0.00	In poor condition.

1918 EARNINGS NOT REPORTED

	High 1916 to	Low Date	Present Div. Rate	Yield on Recent Price	Dollars Earned Per Share 1914	1915	1916	1917	Recent Price	Earnings Last Fisc. Year on Recent Price	
Rep. Ry. & Lt., com.	...	...	0%	0.00	1.95	2.97	3.55	5.88	18	32.66	Brighter prospects.
Ohio Cities Gas	144	31⅞	5	13.51	.....	1.92	2.30	8.70	37	23.61	Prospects of dividend maintenance not bright.
United Light & Ry., com.	...	...	4	10.53	3.74	2.41	4.41	8.68	38	22.84	Should do better.
Detroit United Railway	128⅛	80	8	10.00	13.16	15.69	23.05	14.50	80	18.12	Increased earnings.
Cities Service, com	360	100⅜	§6	1.71	11.28	15.27	36.74	60.73	350	17.35	Earnings improved.
Western Union Telegraph	105½	76	7	7.95	5.38	10.19	13.59	14.40	88	16.36	New rates effective.
Comm. Pr. Ry. & Lt., com.	...	...	0	0.00	8.28	7.42	8.80	5.77	43	13.41	Earnings increase.
Laclede Gas Lt., com	104	80	7	10.45	8.20	9.24	11.21	8.58	67	12.80	Showing better returns.
North American Co.	76	39	5	10.00	6.41	6.06	7.26	6.05	50	12.10	Conditions improve.
Twin City Rapid Transit, com.	90	39⅛	0	0.00	8.05	6.83	9.22	6.04	50	12.08	Earnings on the increase.
Columbia Gas & Elec.	54	25⅞	4	8.89	0.59	0.76	2.31	5.87	45	13.04	Oil properties show good earnings.
Montana Power, com	115	64	5	6.58	2.42	3.73	8.52	7.08	76	9.31	Showing up well.
Standard Gas & Elec., pfd.	...	...	3	7.50	2.63	3.15	3.60	3.70	40	9.25	Earnings increase.
Amer. Tel. & Tel.	124½	90⅜	8	7.58	9.38	9.09	9.61	9.65	105½	9.14	Guaranteed return.
Pub. Serv. Corp., N. J.	137	82	8	9.20	6.50	7.88	11.77	7.92	87	9.10	New financing.
People's Gas Lt & Coke	118	35	0	0.00	8.55	8.39	5.39	4.44	50	8.88	Showing effects of conservatism.
Kings Co. El. & P.	131	87	8	8.08	10.85	11.66	11.88	8.81	100	8.81	Margin over dividend not large.
Am. Lt. & Trac., com.	...	...	†10	4.16	22.32	24.62	25.66	20.98	240	8.74	Company well fortified.
Cons. Gas of N. Y.	145	76½	7	7.37	8.40	9.29	8.99	7.14	95	7.51	Increased rates possible.
Amer. Power & Light, com.	...	...	4	6.56	5.24	4.21	6.37	4.57	61	7.49	Showing up well.
Pac. Tel. & Tel., com.	44	17	0	0.00	1.89	0.56	1.25	1.79	27	6.63	Under Government guarantee.
Pacific Gas & Elec., com.	69	28¼	0	0.00	7.78	10.48	9.10	5.57	88	6.36	Prospects good.
So. Cal. Edison, com	89	73	7	7.95	6.09	6.79	8.61	5.05	88	5.73	Increase shown in earnings.
Northern States Power, com.	...	...	0	0.00	7.32	3.22	5.91	2.11	70	3.01	Improvement in earnings.

§ Also pays regular monthly stock dividend of 1%.
† Also pays 2½% in common stock quarterly.

Latest Oil Developments In North Central Texas

What the Various Companies Are Doing—No Danger of a Cushing Flood of Oil—Outlook For the Fuel Oil Market This Summer

By A FIELD CORRESPONDENT

NORTH Central Texas is the active spot that promises new production, but in fifteen months in the deep Ranger sands it has completed a little over 100 producing wells, with a potential production of less than 60,000 barrels, at a cost of $40,000 to $60,000 per well. The Burkburnett pool, a shallow sand, has in seventeen months completed 125 wells at a cost of $16,000 to $20,000 per well, with a potential production of 55,000 barrels, which may run up temporarily 5,000 to 10,000 barrels more, and Ranger may reach 100,000 barrels. Burkburnett will not stick, and Ranger wells are not all gushers—so far have shown spotty. The wells as a whole do not show the staying qualities expected of them by reason of their isolation in new territory. The producing strata is in lime and in many wells the sand is quite limey, while in others the pay streaks are alternate hard and soft streaks of medium thickness. The extreme thickness of the formation allows the largest shots ever used, and it is reliably reported that with the aid of a large shot, a rainbow show when drilling through the producing formation was increased to a respectable production. It's no piker's game, at $16,000 to $60,000 per well, for a last chance to shoot a rainbow color. As a result the large companies control 80 to 85 per cent of the production in the deep fields.

Local Capital Interested

Many of the companies with local capital interested are in the game and others getting in. Lone Star Gas Company has over 30,000 acres in the five most promising counties in the deep sand fields, has drilled two deep wells, one light not yet shot, one dry and one in a shallow formation, doing 125 barrels, and has another on the Hagaman, nearing the sand. Its lease holdings could be sold for a large profit at the present time. The company has an abundant gas supply and their earnings from gasoline alone would equal 10 per cent or more on the capital stock.

Ohio fuel oil is in with over 225,000 acres of leases in the real producing counties and many other Texas counties that hope to become oil producing. It has a well about due, northeast of the Comanche company, Duke pool; while the location don't look promising to us, it's a new country and anything can happen. The company has a number of leases that will be tested or semi-tested by drilling of others and has many chances.

Manufacturers Light & Heat is interested with Benedum-Trees in a wildcat in Mills county, which developed hot water around 1,700 feet with a show of oil. It will be cased off and a deeper test made. The company also holds in other counties, several hundred thousand acres of leases.

Pennok Oil company has recently shot its well in Stephens county, which started at ninety barrels an hour, and has, with the Oklahoma Producing & Refining, three or four thousand acres in the counties that look most promising.

Large Company Holdings

Of the larger companies outside of the Texas Pacific Coal & Oil Company the Texas Company has the largest holding of wells located in promising territory

at probably the lowest cost price, with a present production in North Central Texas estimated at 10,000 to 12,000 barrels per day. Has four different blocks, widely separated, where wells started natural at over 1,000 barrels. With acreage at low cost and likely looking, the Magnolia comes next with an estimated production of 14,000 to 16,000 barrels a day. Prairie Oil & Gas holds between 75,000 and 100,000 acres—the larger part from the Texas Pacific Coal & Oil Company—in Eastland, Stephens, Palo Pinto, Comanche, Coleman and Brown counties, for which it is reported to have paid a large bonus for a half interest. Its production is estimated at 10,000 to 14,000 barrels, with a number of wells in the sand ready to drill in.

Other Companies

The Gulf Oil is well placed with production and leases in several counties, with an estimated production of 8,000 to 10,000 barrels a day, and is building an eight-inch line from Ranger to Fort Worth which should be completed by March 1.

The Ohio Oil Company (Mid-Kansas Oil & Gas Company) is reported to hold 30,000 to 40,000 acres, mostly from Texas Pacific Coal & Oil Company, for which it paid a large bonus for a half interest. It has completed six wells to date, three had to be shot to make wells, and two look dry. Its Wyoming holdings, as a money-maker, look better to us than their Texas holdings and the leasing bill before Congress will add value to the Wyoming holdings.

Cosden, or Cosden & Co., have a large acreage in Palo Pinto, Jack, Stephens, Callahan and other counties; have one well which looks light, are drilling eight; have a twenty-acre offset to the Pennok-Oklahoma Producing & Refining Swenson well, which started at 1,800 barrels, and 380 acres one mile north and a quarter west of the Katy Stoker well, which made 2,300 barrels, and have a number of well located leases near other tests, totaling between 150,000 and 200,000 acres. The Tex Penn, in Comanche county, has three producers with an estimated production of 3,000 barrels and two wells in top of lime showing 20,000,000 to 30,000,000 feet of gas, not drilled in.

The Prospects

In our judgment the North Texas fields do not, at this time, indicate that they will reach a Cushing flood stage, as the development will be slow. The production is controlled by the large companies and if they drill beyond the pipe line capacity, which at present in both fields with car lines is about 85,000 barrels a day, and by fall will be 125,000 to 150,000 a day, it will be their own fault and they will be responsible for immediate shipment conditions, which might cause some to force prices, but there is no legitimate reason that we can see at this moment to reduce the present prices for crude from conditions brought about by North Texas fields. We would rather expect an advance this summer in crudes and gasoline and a stabilizing of fuel oil markets around present prices.

(Ed. Note: A careful summary of the general oil situation appears in our Trade Tendencies Department.)

MEXICAN OIL SHIPMENTS (BARRELS)

Companies	December	November	Increase or Decrease Over Preceding Month
Mexican Petrol.	1,404,170	1,651,109	— 246,939
Freeport & Mexican	388,033	342,993	+ 45,039
Island Oil & Transport	490,755	259,778	+ 230,977
Mexican Eagle	806,081	1,082,494	— 276,413
Mexican Gulf	163,270	183,200	— 19,930
East Coast Oil	194,534	293,066	— 98,532
Texas Co.	226,144	292,456	— 66,312
Total	3,672,987	4,105,096	Net Decrease 1,432,109

MINING

Greene Cananea's Prospects

Its Status As a Long-Pull Investment—Importance of the Mexican Situation—Costs and Earning Power

By JOHN MORROW

ANY indication of improvement in the muddled conditions of affairs in Mexico, governmental and financial, naturally leads attention around to the American-owned corporations which are trying to conduct operations in that country. Lately there have been signs that President Carranza is desirous of re-establishing Mexico's reputation in this country, and the formation of an international banking committee to investigate and study Mexico's financial and credit position may be a forerunner of better things. For the present Mexico's oil resources are in the foreground of public interest, but there are many companies engaged in mining operations whose position will be benefited and stimulated by more stable conditions below the Rio Grande. One of the most interesting of these is Greene Cananea Copper.

Like all corporations in the same district, Greene Cananea has been seriously handicapped by the unrest around its mining properties in Sonora, but the effects have not been nearly as disastrous as might be supposed. While the production of ore declined sharply in 1917, there was a big improvement in 1918, and despite the uncertainties of doing business between visits of tax collectors, as it were, the company has been able to pay greater returns to its stockholders in the last two years than at any previous time in the history of its operations. Recently the dividend rate of $8 a share, which was sustained through 1917 and 1918, was cut to $6, but the reduction may not wholly be attributed to the mere fact that the mines are located in Mexico. The general situation affecting copper producers is too well known to require extended comment here, but the present stagnation in the copper metal market probably had as much effect as any other known factor upon the decision of the directors.

TABLE I—REVENUES OF SUBSIDIARIES AND INCOME RECEIVED BY GREENE CANANEA

	Gross Revenues	Net Income All Companies	Divs. Paid By Oper. Cos.	Greene Cananea Income From Dividends
1912	$8,781,282	$2,610,829	$2,200,000	$2,092,025
1913	7,762,469	2,344,592	1,175,000	1,131,680
1914	3,639,098	638,955	1,000,000	959,378
1915	3,697,443	1,410,544	550,000	506,039
1916	17,535,366	7,673,184	3,600,000	3,435,879
1917	9,133,086	2,497,888	....	....

Earning Power

Greene Cananea is a holding company whose structure was more or less complicated until 1917, when an exchange of the proprietary company's shares for the stocks of the controlled companies and the direct acquisition of their assets, simplified the corporate relationships. Greene Cananea, prior to this readjustment, received its income from the Greene Consolidated Copper Co., through ownership of the stock, but Greene Consolidated disappeared in 1917 through the sale of its assets to Greene Cananea, and with this transaction Cananea Consolidated

and San Pedro, two operating companies, passed directly to Greene Cananea. As a holding company the amount per share earned each year by Greene Cananea was not truly reflective of the earning power back of the stock, representing as it did the dividends paid the parent company by the controlled concerns. However, the 1917 income account was clearer, and the surplus of $5.05 a share earned in the year showed the total income of the companies.

In the previous years the amount earned, as shown in the graph, was only the result of dividends from the subsidiaries, and, in fact, the income account for 1917 is strictly not comparable with those of previous years.

In Table I is shown the total net income of all the companies for a period

TABLE II—PRICE RANGE GREENE CANANEA

	High	Low
1913	35½	27⅝
1914	42⅜	21¼
1915	52⅜	23½
1916	56½	34
1917	47	34
1918	58¼	38½
1919	*46½	41

*To March 1.

of years, together with the amount of dividends paid by them, and the proportion of those dividends received by Greene Cananea. Greene Cananea did not own quite all of the stock of the controlled companies, but the amount outstanding in other hands was not very large. In any event, these figures will give a better idea of real earnings than the mere statement of what Greene Cananea earned per share. That relationship is another reason why dividends paid upon Greene Cananea stock each year have been practically equal to the amount technically available for that purpose. Such a policy did not necessarily indicate a rash disbursement of current resources, as in all except one year of the last eight the subsidiaries paid to the parent company in dividends less than they earned, as the table will show.

Production Totals and Costs

Greene Cananea suffered in 1917. Then the properties were operated only from January 1 to June 22 and from December 10 to December 31. The attitude of the Mexican authorities who held the reins in Sonora was so arbitrary that the company shut down rather than submit to the demands for higher taxes, etc. As a result production was only about 27,000,000 pounds, compared with the high water mark of over 62,000,000 pounds for the previous year. For the copper sold in 1917 the average price received was about 27 cents a pound, certainly a good price, but production costs were almost 17½ cents, which represented an increase from 11.35 cents the year before. While in normal times Greene Cananea properties did not have unusually low production costs, the average was good, ranging from 9 to 11 cents a pound. The margin between the prices received and production costs averaged from 3 to 6 cents a pound.

The ore from the mines controlled by Greene Cananea contains considerable gold and silver values, but sales of gold and silver represent on an average only about 9 to 10% of the total gross revenues.

Last year was far from a bad year as far as production of ore was concerned. In fact, the total was exceeded by that of only one year, 1916. The total in 1918 was 53,270,000, and the monthly output was well sustained. At the end of 1917 officials of the company succeeded in making arrangements with the Mexican officials which allowed a free operation of the properties. The results in dollar profits for 1918 from the production of over 53,000,000 pounds of copper are not yet available, but it may be presumed that net earnings were satisfactory when comparison with 1917 is made. Production was double the total of that year, and that certainly should have

offset the higher cost of operations and the tax burdens.

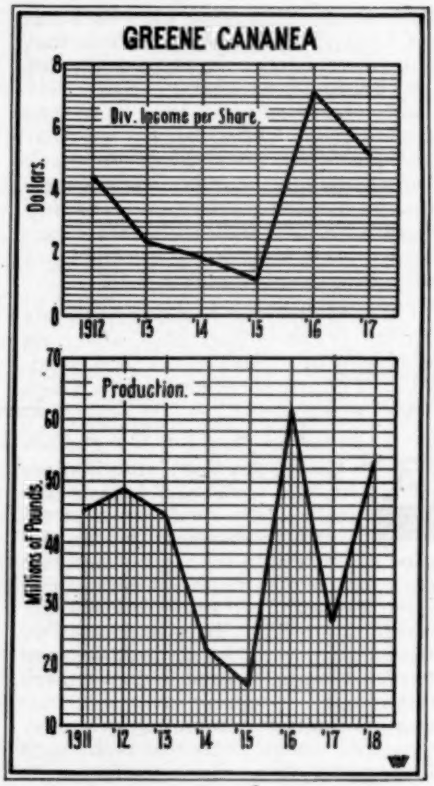
Operations and Prospects

Greene Cananea mines, located in Sonora, about 40 miles south of the border, are reached by a branch of the Southern Pacific's Mexican lines. The producing mines run along a mineral belt about six miles long in a range of the Cananea Mountains. The active mines are of established value, and it is doubtless true that had conditions in Mexico been anything like normal in the past few years, Greene Cananea would be more generally accepted as a representative copper producer than it is now. To go further into the troubles that have beset the company in the past, it is only necessary to mention that as far back as 1914 operations were curtailed by revolutions, and in 1915 there were also interruptions.. The final shut-down in 1917 was due to tax disputes. It would seem to be quite plain that with conditions improving, Greene Cananea should be in a position to benefit materially and to make substantial claims to recognition by the many interested in copper stocks.

Since the beginning of 1919 operations have been about 60% of normal, and monthly production will be at the rate of about 3,000,000 pounds a month. This policy of curtailed output is being followed by practically all of the large copper producers, no matter where the mines happen to be located. There is no labor trouble at the Greene Cananea mines, and all is quiet. In fact, it is claimed that the company is better off with respect to labor supply than most of the mines north of the Rio Grande.

Greene Cananea is still developing new ore bodies, and would have done more work along those lines in the last two years had conditions been more favorable. Only last summer it was announced that two new ore bodies which had been under development were putting out ore averaging between 10 and 11% copper, and it was claimed that the percentage would prove to be higher as the veins were developed. The average recovery from ore over a series of years has been between 2 and 3%, and has run consistently. The management expects to take advantage of the present dullness in the copper industry to push development work.

A significant feature in connection with Greene Cananea is the large block of stock owned by Anaconda. As of December 31, 1917, the number of Greene shares held by Anaconda was



59,600, and from time to time since then it has been reported that these holdings were being increased, and interests connected with Anaconda are credited with adding at least 10% additional. It is not out of the way to assume the faith of the mining experts of Anaconda in the Mexican property when the evidences of substantial stock holdings are open knowledge.

Conclusion

The ability of Greene Cananea to increase its dividend to $8 in 1917 was never fully reflected in the market prices of the stock, whose record high price of 58¼, as shown in Table II, was made in 1918. When the shares of the American copper companies were coming in for their portion of speculative attention during the war markets of 1916 and 1915, Greene Cananea had the Mexican cloud hanging over its head, and it may have been quite natural that general confidence in the position of the company was lacking. Since 1911 shares of the company have had a par value of $100, having been changed at that time from $20. While the stock commands a fair market, it is very seldom particularly active, but recently there have been indications that ordinarily would bespeak quiet buying of more than usual significance.

On a $6 dividend basis, the yield at current prices is over 14%, and even admitting that there might be a possibility of a further reduction before copper conditions return to a more normal basis, the stock does not appear to be selling at what are popularly called inflated prices. Coupled with the probability of price appreciation when the copper industry makes its turn for the better, there is the favorable chance that something constructive will come out of the Mexican situation to attract attention to Greene Cananea shares. While it is admittedly difficult to pin down the anticipated improvement in Mexico to a matter of fact basis, it is rather well accepted that chances favor eventualities that will beget more faith in that country. In the meantime Greene Cananea, with net current assets estimated at about $7,500,000, may pursue its development work against that possibility.

While the opporunity for quick realization of profits may not exist at the present in Greene Cananea shares, the attraction of a long pull purchase is present, and should be well considered by those who understand the nature of the risks necessarily involved in buying all classes of copper stocks.

ELEMENTS OF A SUCCESSFUL HUMAN LIFE

AS I see it, any human life in order to be a successful human life, must satisfy six or seven of the great fundamental human instincts. In my classes I have been enumerating them as follows: First, there is the instinct of self-preservation, about which little needs to be said, because we all recognize it. The trouble is, we harp too much on that one string. We think that is all the workman is interested in; that his interest is confined to his pay envelope. Undoubtedly that is the most fundamental thing. But there is also the instinct of self-expression, or the instinct of workmanship; there is the instinct of self-respect and respect for others; there are the instinct of self-sacrifice or heroism; the instinct of love, or the home-making instinct; the instinct of loyalty; and possibly, whether it is innate or not I do not know, the instinct of worship.

If we examine the misfits of life, those who fill our insane asylums, our prisons, our hospitals, you will find that they are made up of people who have not been able to satisfy all, or possibly any, of these fundamental instincts.

In order that the laboring man may live his life, he must satisfy something more than the instinct of self-preservation. His life cannot amount to much if it merely consists in keeping body and soul together. And yet, with strange blindness, the employer assumes that the only thing his employe is, or can be, interested in is his wages. Hence these ingenious schemes, like the Taylor system, for trying to get more work out of labor consist entirely of thrumming on this one string—trying to hold out a bale of hay for the donkey, and as he approaches it, making him walk the faster to reach it. I believed thoroughly in these systems, and in piece work, until I began to understand what at first had appeared to me strange, the objections on the part of the laboring men, though they did not and do not themselves understand the nature of their objections. Their souls are hungry and thirsty to satisfy these great instincts, but they do not know it.—Prof. Irving Fisher, Yale University.

UNLISTED SECURITIES

Intercontinental Rubber's Future

Earnings Largely Depend on Restoration of Order in Mexico

By PRESTON S. KRECKER

PRODUCING a highly profitable commodity, which is in world-wide demand owing to the rapidly expanding market for motor cars, the future of the Intercontinental Rubber Company has been attracting attention. The stock of the company recently sold at the highest level touched in a number of years and rather glowing reports of the prospects of the company have attended the movement of the shares.

Recent buying of the stock undoubtedly has been due in part to the improved outlook for restoration of order in Mexico and the apparently well-intentioned purpose of the Mexican Government to recognize the rights of foreigners and compensate them for damages wrought through revolutionary activities. As the Intercontinental Rubber Company has large interest in Mexico and suffered heavily from depredations of Mexican bandits, the establishment of a stable government in the republic and adjustment of claims of foreigners for compensation would be a most desirable development.

Properties of Intercontinental

The Intercontinental Rubber Company is a holding concern possessing, through stock ownership, control of eight subsidiaries. It was incorporated under the laws of New Jersey in 1906, with an authorized capital of $30,000,000 common stock and $5,800,000 preferred. All of the preferred stock has been retired. The amount of the common stock outstanding is $29,031,000, of a par value of $100 a share. The company has no funded debt. In 1909 it absorbed the Continental Rubber Company of America, with a capital stock of $29,990,000, and also the Continental Rubber Company, with a capital stock of $562,000, giving its own common stock in exchange.

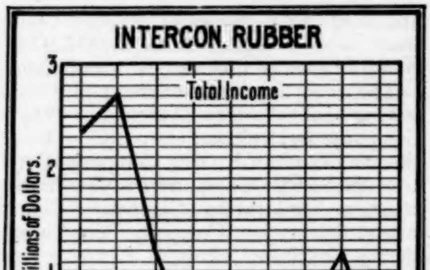
The company now controls the following subsidiaries: American Congo Company, Agricultural Corporation, Continental Mexican Rubber Company, Continental Rubber Company of New York, Rubber Exploration Company, Continental Plantation Company, Cia Ganadera y Textil de Cedros, S. A.

Through these various companies the Intercontinental Company owns about 4,500,000 acres of rubber lands in Mexico, the Belgian Congo, Sumatra and Arizona. In Mexico the company owns the Cedros Ranch of upwards of 2,000,000 acres, on which the guayule rubber shrub grows without cultivation. The company also owns the patent covering the process of extracting rubber from the shrub. The shrub yields about 10 per cent rubber, used chiefly in composition with Para rubber. In Arizona, through the Agricultural Products Company, the Intercontinental has acquired approximately 9,000 acres of land in Pima County, on which it is developing a cultivated and irrigated guayule rubber shrub on a commercial scale.

The American Congo Company, in which the Continental Rubber Company owns a 49 per cent interest, holds a concession in the Belgian Congo covering 2,500,000 acres of rubber land. The remaining 51 per cent interest is owned in Belgium. Through the Continental Plantation Company, incorporated on July 1, 1917, the Intercontinental Rubber Company has a 125-year lease on approximately 20,000 acres of land in the province of Asahan, Sumatra.

Of all the various properties enumerated, only the Mexican investment is

yielding any returns to the Intercontinental Rubber Company at present. The Congo venture has never proved a financial success and probably never will. It can readily be ignored in considering the future of the company. The Sumatra proposition is merely a prospect, but a promising one. It takes from four to five years to develop a rubber tree plantation to maturity. Hence it will be some time before the company will derive any income from its interest in that island. The first unit of 4,000 acres is under cultivation. Ultimately it is hoped this tract will yield 1,600,000 pounds of rubber a year. The great success of British rubber companies in developing properties in the East Indies augurs well for this undertaking.



Results of operations of the Intercontinental Rubber Company in Mexico have been very unsatisfactory in recent years. This is attributable in part to the world war, but more particularly to the unsettled condition of affairs in Mexico, where its most productive properties are located. A study of Table I shows that, but for income derived from investments, the company would have fared badly since 1912, the last year during which operations were anything like normal. The company owns a $1,250,000 rubber plant at Torreon, Mexico, adjacent to its Cedros ranch. The reported capactiy of this plant is a million pounds of rubber a month, but this undoubtedly is a liberal estimate. Its production has averaged far below that maximum in recent years owing to the interference of Mexican bandits with operations. The bandits have made a practice of enticing away the workmen by holding out alluring prospects of an easy life of plundering. They have repeatedly robbed the ranch of the company, and in December, 1916, occupied its factory, compelling complete suspension until November 1, 1917.

Since that time operations have been maintained subject to frequent interruptions and, therefore, necessarily on a scale far below maximum. Although general conditions have improved somewhat, the administration of the company's business and the protection of the Cedros ranch has been surrounded with obstacles which have been only partially overcome. Production of rubber in the period from November 1, 1917 to the end of the old fiscal year on July 31, 1918, totalled 1,787,131 pounds. Of this amount about one-third was produced from shrub of the company's own growth and the remaining two-thirds from shrub purchased under contract. It is understood that the average of 200,000 pounds has been maintained since that time, but, since last Fall, Spanish influenza and an abnormally heavy rainy season have interfered seriously with operations.

The last annual report states that development work was started in the Sumatra properties in 1918 and is being prosecuted satisfactorily, the only unfavorable feature being the depreciation of the American dollar in neutral coun-

tries. Experimental work is being conducted in Arizona.

Earnings Prove Unsatisfactory

As might be expected as a result of continued unsettlement in Mexico, earnings have been unsatisfactory. The last annual report does not separate profits from operations from other income, but lumps the two, making a total of $238,372. This was equivalent to about 57 cents a share on the stock of the company. This contrasts rather poorly with results obtained the previous year, when the company reported a total income of $1,195,895, or $3.65 a share, but examination of the report for 1917 shows that the relatively large income of that year was due, not to increased rubber production, but to the substantial profits received from sale of the company's steamship interests and from dividends derived from the operations of the steamship companies prior to sale. The company still retains one-half interest in a 5,200 ton steamship, which asset is valued in the books at $100,000.

TABLE I—EARNINGS FOR PERIOD OF YEARS

	Operating Profits	Other Income	Total Income
1910......	$2,369,795	....	$2,369,795
1911......	2,714,255	....	2,714,255
1912......	1,190,095	....	1,190,095
1913......	199,322	$ 71,002	260,324
1914......	....	86,671	86,671
1915......	180,140	94,281	274,421
1916......	42,996	538,907	581,903
1917......	....	1,195,895	1,195,895
1918......	....	*238,372	*238,372

*Includes profits from investments.

The Intercontinental Rubber Company was fortunate in being able to accumulate a surplus during the years of profitable operations prior to the Mexican revolution. As it has distributed no dividends since 1911, all of these profits have been added to surplus, which at the close of the last fiscal year amounted to $4,169,624. This was equivalent to approximately $15 a share on the outstanding stock. Net quick assets of the company as of that date were about $9 a share. These assets included $1,559,020 in investment securities and $521,683 in cash.

On July 31, 1918, the company reported assets of $33,962,764. After deducting book value of patents and current liabilities there remained net assets of $33,185,483, which were equivalent to $114 on the outstanding stock. Included in these assets was stock issued in exchange for securities of subsidiary companies amounting to $28,198,575. In the light of the earning power of the company this seems to be a high book value for the stock.

Prospects for Stock

The company has earned net profits available for dividends of $8,276,789 in the last nine years, an annual average of $919,643. The average earned on the common stock after allowances for preferred dividends (now no longer paid because the preferred has been retired) was 2.94 per cent on the common stock.

The highest price at which the common stock has sold was 35⅛, touched in 1910 and repeated in 1911. The high of the current calendar year so far has been 21 and the low 10¼. The stock is an unlisted security, which is dealt in on the New York Curb Market. While the outlook for the company has improved, it is doubtful whether it will be able to increase its earning power materially until Mexico becomes stabilized. This admittedly is an uncertainty, at any rate for some little time to come.

TABLE II—BALANCE SHEET JULY 31, 1918*

Assets:		
Investments in stock of merged and subsidiary Companies:		
By Cash		$ 3,030,322
By Stock Issues............		28,198,575
By Steamship Stock........		100,000
		$31,328,897
Advances	$430,646	
Sundry Accounts........	29,101	
		459,747
Patents		15,142
Advances on Rubber		78,275
Investment Securities		1,559,020
Cash		521,683
		$33,962,764
Liabilities:		
Capital Stock		$29,031,000
Accounts Payable, Taxes accrued, Etc.		27,706
Reserve Accounts		734,434
Surplus		4,169,624
		$33,962,764

*Fiscal year changed last October to conform with calendar year.

TOPICS FOR TRADERS

Options—What They Are

By MAX HESSLEIN

THE Standard Dictionary defines an option as "The purchased privilege of either delivering a specified amount of something at a specified price within a specified time, or calling for and receiving such a delivery."

As particularly applied to dealing in stocks or other securities, an option is based on the expectation of future changes in the general situation, financial, economic or political, affecting the stock market. In this way it resembles the option taken by a real estate operator when he wishes to procure the right to buy a certain piece of property if conditions at a designated future time enable him in his judgment to successfully complete the transaction. If they do not he forfeits his option price, presumably to avoid a larger loss. If he wishes to complete; seller must abide by the contract.

What They Are Not

Options are not gambling contracts. Among the uninitiated there has been a tendency to regard options in the nature of a bet because it is claimed that one party to the deal wins what the other loses. If this were true, options would indeed have no economic value, and consequently, no right to exist.

Options are valuable contracts. By the purchase of such investments the holder acquires the right to demand from, or deliver to the seller, a certain amount of stock at a fixed price at any time within a given period. The buyer may or may not exercise the privileges conveyed by his option; the seller must fulfill his part of the agreement if called upon to do so.

In a contract of this nature there is obviously no more resemblance to a bet than there is in the outright sale of one hundred shares of stock. If the seller in that transaction thought he could presently get more for his stock, he would not sell. If the purchaser shared the seller's view he would not buy, for he would wait for an impending decline.

The insurance feature of options, explained hereafter, proves conclusively that options are not a cloak for gambling any more than other aleatory contracts. The fire insurance company really bets that your house will not burn and gives you very big odds and such contracts are unquestionably legitimate.

Historically

The Stock Exchanges of England and the Continent have dealt in options for more than three hundred years. In the operations of European bankers, brokers and traders generally, options constitute a very important factor.

In the United States, however, this method of trading is confined almost entirely to the large financial operators, who understand and appreciate its advantages.

It is difficult to trace the origin of these contracts. The earliest option deal known is one closed in England, in 1695, by the East India Company with Sir Basil Firebrass. The first regular dealings seem to have taken place in the beginning of the eighteenth century in Amsterdam. That is where John Law, later Secretary of the Treasury to the Duke of Orleans, Regent of France in 1718, became acquainted with the use of options and employed them in his financial transactions with the owners of the shares of the Louisiana Company. In 1820 we find that large dealings took place in Berlin. From such sporadic beginning, developed the enormous transactions based on these privileges, which were of daily occurrence in France and England before the war. While the London Stock Exchange is the market where dealings are most active, the Paris Bourse undoubtedly shows the largest individual transactions, these running at times into millions of francs.

Wall Street has never had a market for options similar to that of Europe. Most of the options sold here were obtained there, especially in London; although many originated right in New York.

Economically

Recently a distinct expansion of the New York markets in options has taken place. It is not uncommon for privileges to be dealt in on blocks of 5,000 to 10,000 shares of stock.

In view of this fact, it may be of interest to examine more fully the functions of these privileges as well as the method of dealing with and against them.

The definition of a "stock option" is: "A contract giving the purchaser the privilege of buying or selling an agreed quantity of some security on or before a given time at a fixed price."

There are three classes of options:

(a) The *Call,* which gives the right, in consideration of a premium paid, to *buy* a certain quantity of a security at a fixed price, on or before a certain date.

(b) The *Put,* which entitles the purchaser to *sell* a specified amount of stocks or bonds at a stipulated price on or before a future date.

(c) The *Put and Call* or *Straddle,* which as the name implies, is a combination of the two, giving the purchaser the right to either buy from or deliver to the seller of the contract as specified above.

In all these cases the maker of the option must deliver or purchase when requested to do so, the "option" being solely with the holder of the privilege. The amount of premium which is to be paid for options on securities depends primarily, like the price of the securities themselves, on supply and demand. It is therefore evident that options on securities that are subject to violent fluctuations are more expensive than on those which are practically stationary during long periods, i. e.: Options in Mexican Petroleum, a stock where a rise or a fall of ten points in one day is not exceptional, cost more than Puts or Calls on Pennsylvania R. R., which stock varies relatively little.

We also find when trading on the Exchange is active, or even after only a day or two of excited markets, the difference between the market prices and the option price will be larger than in quiet sessions.

Of course the price of a privilege which is in force for six months is more expensive than one which gives the right to deliver or receive within one month or less. The factors which govern the price of any other commodity react just as inviolably for or against options.

As the purchaser of an option cannot lose more than the amount which he paid for it, while his chance for profit is unlimited, the seller of the privilege would seem to be under a considerable disadvantage. His only gain appears to be the small cash premium received, with the possible chance of a large loss if the option is exercised. Why, then, does he consent to sell "options?"

The fact is that options are very rarely sold by speculators who take such risks and legitimate traders in options refuse to buy this class of options. The sellers usually are men who hold big blocks of certain securities.

By receiving a materially higher price, if the stock is called, than could be obtained at the time the option is sold, the holder of such securities secures a distinct advantage. If the Call is not exercised the premium received further reduces the average cost of his securities to that extent.

In the case of "Puts" it is again the large stockholder who usually deals; he knows, or believes he knows, the value of the securities in question and he is willing to buy more of the same stock within a designated time at materially lower prices than the prevailing market quotation.

Benefits to the Small Investor

The small investor will perhaps after all receive the greatest benefit from the purchase of options.

As an illustration:

John Jones is a merchant who abhors gambling and would under no circumstances buy on margin.

As a reasonably intelligent business man he is fairly familiar with financial conditions in the country and watches the market. He is interested in certain

lines of business, a particular industry, perhaps for geographical reasons in a certain railroad; his friends may control a certain industrial plant. Jones has always been anxious to acquire some of this particular stock. He notices that it is quoted at very low figures. From his knowledge of the stock or the people controlling the concern he feels that this is the time for him to buy. He cannot spare the money from his business and will not take the risk of purchasing on margin. Jones will within the next thirty or sixty days have sufficient spare cash to purchase the stock at its present price.

If he buys a thirty or sixty-day option, he goes about his regular business and before the time limit expires he has acquired the necessary funds, completed his purchase of a good investment at a conservative price.

Let us assume that Jones is the actual holder of a block of a certain stock. This is an investment he has acquired by dint of much sacrifice and represents the major portion of his savings. Perhaps it has been of invaluable aid in his business as collateral for bank accommodations. Jones hears rumors about the company, maybe his bank advises him that the collateral will no longer be satisfactory; if Jones has to sell at that particular time he may be losing a very good investment, or perhaps must take a very large loss at a time least convenient for him. Personally, Jones feels that the conditions are merely temporary.

Instead of selling Jones can purchase a "Put" for the number of shares he holds, which gives him the right to deliver at the market price *that day* for a certain premium or a few points below the market at a lesser premium; at any time within thirty days. All it will cost Jones is the premium. If the rumors prove well founded and the stock drops, Jones under the terms of his options, can deliver his stock or have his bank deliver it to the makers of the options, who will pay him the agreed price, no matter what the market quotation may be at the time of such delivery.

The additional safeguard for Jones is that in the event he made an error in judgment the thirty or sixty days' time will undoubtedly reveal this fact, and Jones will not exercise his option and his loss will be limited to the small premium he paid, exactly as if Jones wanted to locate in a new store and paid the landlord for an option for thirty or sixty days until he had definitely settled the matter in his mind without binding himself on a long time lease.

A "Put" would secure the bank which desired substitution of collateral against a loss in price of the securities for thirty or sixty days.

Insurance

The most important function of options is their application as insurance.

It sounds unbelievable that there should exist a most perfect system of such insurance and that so few traders know how options may be used in this regard. Real courage is needed just to approach nine out of ten traders with the proposition to insure their trades for one, two, six or twelve months without being considered a dreamer or a confidence man. And still there is no more excellent or simpler system of insurance.

To adduce an example: The owner of a certain security fears that political conditions will affect his investments adversely. Instead of selling out at an inopportune time, he acquires the right by buying an option to sell these securities at an agreed price on or before some future date. If the unfavorable developments come to pass the owner will have avoided or minimized his loss. Stockholders could have saved hundreds of thousands of dollars if they had taken some such simple precaution, at the beginning of the world war with its resultant panic of July, 1914.

All important features, and particularly the insurance value of options, can best be shown by following the fluctuations of a certain stock in a period of thirty days, the usual time for which options are issued.

On October 30 Studebaker was selling on the New York Stock Exchange at 62½. It advanced within nine days to 72⅞. An investor bought 100 shares at 70. Instead of a material further advance a sharp drop ensued, the stock selling on November 29 at 47. The investor sustained a serious loss.

He could have made use of options in two ways in this deal.

Instead of buying the stocks he could have bought a *Call*. He would have acquired thereby the right to ask for delivery to him within thirty days of one hundred Studebaker at 70 for a larger premium or at a higher figure (say 73) for a smaller premium. All he would possibly have lost was his premium, if the stock did not fulfill his expectation. But if Studebaker advanced, he would have received his 100 shares for which he would have paid 70 and kept them or sold them in the market with a good profit.

If, instead of buying the Call, he had bought the 100 shares at 70 and at the same time bought an insurance policy against loss called a "Put" good for thirty days, this Put would have given him the right to get rid of his 100 shares at 70 or a few points lower than 70 for a smaller premium. On November 29, when the stock was selling at 47, he either had no loss or he had a very limited one.

Now turn to the trader who thought of selling 100 shares at 62½ on October 30. If instead of selling he had purchased a "Put" giving him the right to deliver the stock at any time at 62½ for a certain premium or several points off (say 60) for the smaller premuim, when the stock dropped to 47 he could have bought and delivered against his Put and received 62½.

If he did, however, sell at 62½ he could have insured his transaction by purchasing at the same time a "Call," which accorded him the right to receive 100 shares at any time within thirty days at 62½ or thereabouts and then he would not have worried about an advance of any size and would have profited by the ensuing drop just the same.

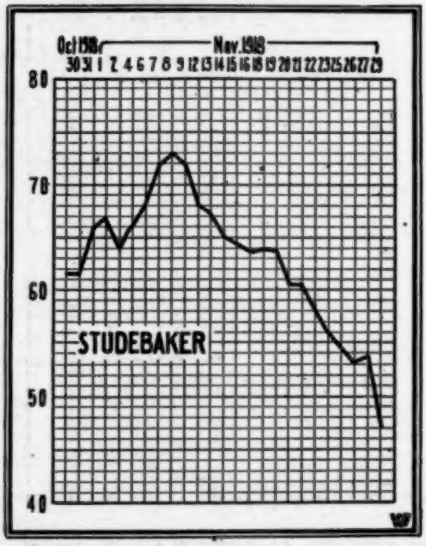
A Put and Call or Straddle would also have worked in this instance very satisfactorily.

Say a trader would have acquired thereby the combined right to either purchase from the seller of the option or to sell him 100 Studebaker within thirty days at 62½ for double the premium which he would have to pay for either a Put or a Call.

On the advance he could have sold 100 at 70 against the Call side of the Straddle, being able to deliver the shares which cost him 62½.

When later the stock dropped to 47 he could have bought 100 shares against the part of his Straddle which allowed him to Put 100 shares at 62½ and also the 100 which he sold against his call at 70, and before the time limit in the Straddle expired he could have exercised this Put and delivered 100 shares purchased to the maker of the option at 62½, realizing another good-sized profit.

The History of Studebaker for Thirty Days, October 30 to November 29, 1918



1918		Studebaker sold at
On October	30	62½
On November	9	72⅞
On November	29	47

These illustrations show some of the great possibilities in options. The space is too short to treat of them all here, but enough has been shown to convince that options belong under the category of conservative and legitimate Stock Exchange transactions.

IMPORTANT DIVIDEND ANNOUNCEMENTS

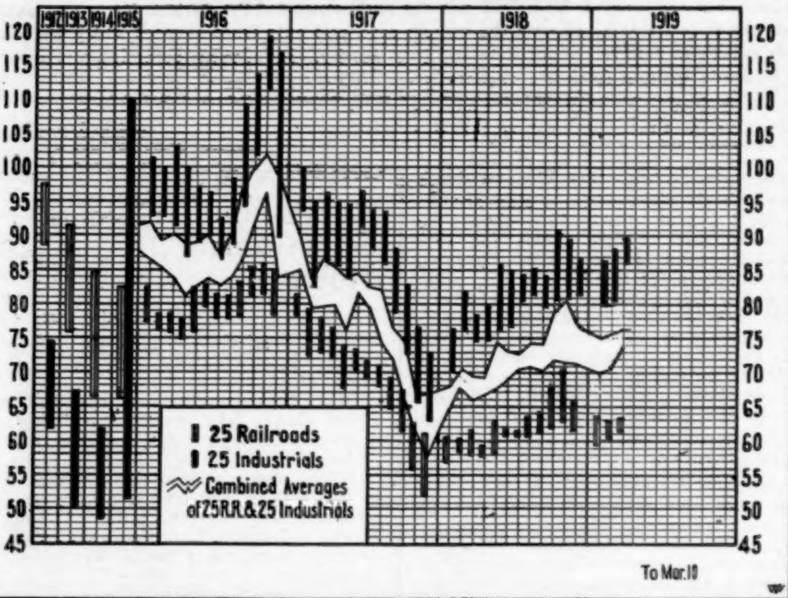
To Obtain a Dividend Directly from a Company the Stock Must Be Transferred Into the Owner's Name Before the Date of the Closing of the Company's Books

Ann. Rate	Name	Amount Declared		Paid to Holders as of	Payable
	A				
6%	Advance Rum, p...	a1½%	Q	Mar. 17	Apr. 1
$4	Allouez Mining	$1	Q	Mar. 17	Mar. 31
$6	Am Bt Sugar, p....	$1.50	Q	Mar. 15	Apr. 1
8%	Am Bt Sugar, c....	2 %	Q	Apr. 12	Apr. 30
7%	Am Can, p........	1¾%	Q	Mar. 14	Apr. 1
6%	Am Chicle, p......	1½%	Q	Mar. 22	Apr. 1
$6	Am Express	$1.50	Q	Feb. 28	Apr. 1
7%	Am H & L, p.....	1¾%	Q	Mar. 15	Apr. 1
$3.60	Am Int'l Corp, p...	90c	Q	Mar. 15	Mar. 31
$3.60	Am Int'l Corp, c...	90c	Q	Mar. 15	Mar. 31
7%	Am Linseed, p.....	1¾%	Q	Mar. 15	Apr. 1
7%	Am Locomotive, p.	1¾%	Q	Apr. 4	Apr. 21
5%	Am Locomotive, c.	1¼%	Q	Mar. 18	Apr. 3
12%	Am Radiator, c....	3 %	Q	Mar. 22	Mar. 31
....	Am Rad, c ext...	xx4 %		Mar. 22	Mar. 31
7%	Am Sugar Ref, p...	1¾%	Q	Mar. 1	Apr. 2
7%	Am Sugar Ref, c...	1¾%	Q	Mar. 1	Apr. 2
....	Am Sug Ref, c ext.	¾%		Mar. 1	Apr. 2
8%	Am Tel & Tel.....	2 %	Q	Mar. 14	Apr. 15
6%	Am Tobacco, p....	1½%	Q	Feb. 15	Apr. 1
	B				
8%	Beth Steel, 8% p..	2 %	Q	Mar. 12	Apr. 1
7%	Beth Steel, 7% p..	1¾%	Q	Mar. 12	Apr. 1
5%	Beth Steel, c A....	1¼%	Q	Mar. 12	Apr. 1
5%	Beth Steel, c B....	1¼%	Q	Mar. 12	Apr. 1
....	Beth Steel, c A ext.	1¼%		Mar. 12	Apr. 1
....	Beth Steel, c B ext.	1¼%		Mar. 12	Apr. 1
$7	Booth Fish, p......	$1.75	Q	Mar. 12	Apr. 1
$2	Booth Fish, c......	50c	Q	Mar. 12	Apr. 1
8¾%	Boston & Albany..	2 %	Q	Feb. 28	Mar. 31
	C				
$7	Calif Packing, p....	$1.75	Q	Mar. 15	Apr. 1
$4	Calumet & Ariz....	$1	Q	Mar. 7	Mar. 24
4%	Canadian Pac, p...	2 %	S	Feb. 28	Apr. 1
10%	Canadian Pac, c...	2½%	Q	Feb. 28	Apr. 1
7%	Cent Leath, p......	1¾%	Q	Mar. 10	Apr. 1
12%	Chandler Motor....	3 %	Q	Mar. 11	Apr. 1
$12	Cheseb Mfg	$3	Q	Mar. 1	Mar. 20
....	Cheseb Mfg, ext...	50c		Mar. 1	Mar. 20
5%	C, C, C & St L, p.	1¼%	Q	Apr. 1	Apr. 21
4%	Comp-Tab-Record ..	1 %	Q	Mar. 25	Apr. 10
7%	Cont Can, p.......	1¾%	Q	Mar. 20	Apr. 1
6%	Cont Can, c.......	1½%	Q	Mar. 20	Apr. 1
$12	Cont Oil	$3	Q	Feb. 24	Mar. 17
7%	Crucible Steel, p..	1¾%	Q	Mar. 15	Mar. 31
7%	Cuban Am Sug, p..	1¾%	Q	Mar. 14	Apr. 1
10%	Cuban Am Sug, c..	2½%	Q	Mar. 14	Apr. 1
	D				
9%	Del & Hudson.....	ff2¼%	Q	Feb. 26	Mar. 20
6%	duP deN&Co, deb stk	1½%	Q	Apr. 10	Apr. 25
	E				
10%	Eastern Steel, c....	2½%	Q	Apr. 1	Apr. 15
6%	Eastman Kodak, p.	1½%	Q	Feb. 28	Apr. 1
10%	Eastman Kodak, c.	2½%	Q	Feb. 28	Apr. 1
....	East Kodak, c ext.	2½%		Feb. 28	Apr. 1
....	East Kodak, c ext.	5 %		Mar. 31	May 1
	G				
8%	Gal Sig Oil, orig p.	2 %	Q	Feb. 28	Mar. 31
8%	Gal Sig Oil, new p.	2 %	Q	Feb. 28	Mar. 31
6%	Gen Chemical, p...	1½%	Q	Mar. 18	Apr. 1
7%	Goodrich, B F, p..	1¾%	Q	Mar. 21	Apr. 1
4%	Goodrich, B F, c..	1 %	Q	May 5	May 15
7%	Gulf States St, 1st p	1¾%	Q	Mar. 15	Apr. 1
6%	Gulf States St, 2d p	1½%	Q	Mar. 15	Apr. 1
4%	Gulf States St, c...	1 %	Q	Mar. 15	Apr. 1
	H				
6%	Harb-Walk Refr, p.	1½%	Q	Apr. 9	Apr. 19
$4	Haskell & Bark Cr	$1	Q	Mar. 17	Apr. 1
	I				
6%	International Salt..	1½%	Q	Mar. 15	Apr. 1
$2	Isle Royale Cop....	50c	Q	Mar. 7	Mar. 31
	J				
7%	Jewel Tea, p......	1¾%	Q	Mar. 20	Apr. 1
	K				
$1	Kerr Lake Mining..	25c	Q	Mar. 1	Mar. 15
$7	Kresge, S S, p.....	$1.75	Q	Mar. 17	Apr. 1

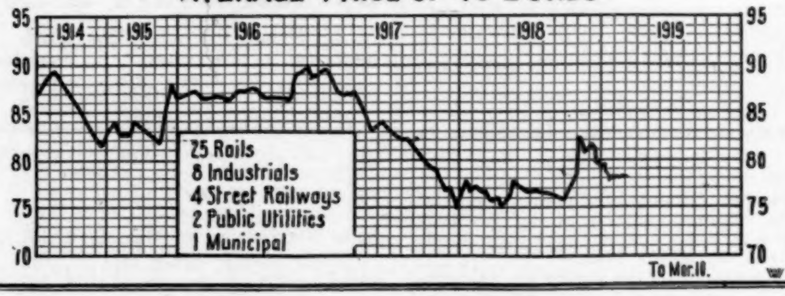
Ann. Rate	Name	Amount Declared		Paid to Holders as of	Payable
	L				
6%	Lackawanna Steel..	1½%	Q	Mar. 10	Mar. 31
7%	Lig & Myers Tob, p.	1¾%	Q	Mar. 17	Apr. 1
	M				
4%	Mackay Cos, p.....	1 %	Q	Mar. 8	Apr. 1
6%	Mackay Cos, c.....	1½%	Q	Mar. 8	Apr. 1
12c	McKinley-Dar-Sav .	3c	Q	Mar. 8	Apr. 1
10%	Merg Lino	2½%	Q	Mar. 5	Mar. 31
8%	Mex Petrol, p.....	2 %	Q	Mar. 15	Apr. 1
8%	Mex Petrol, c.....	2 %	Q	Mar. 15	Apr. 10
7%	Mont Power, p....	1¾%	Q	Mar. 15	Apr. 1
5%	Mont Power, c....	1¼%	Q	Mar. 15	Apr. 1
	N				
7%	Nat Biscuit, c......	1¾%	Q	Mar. 31	Apr. 15
7%	Nat En & Stp, p..	1¾%	Q	Mar. 11	Mar. 31
6%	Nat En & Stp, c..	1½%	Q	Feb. 28	Mar. 20
5%	Nat Lead, c........	1¼%	Q	Mar. 14	Mar. 31
7%	Nat Sugar Ref.....	1¾%	Q	Mar. 10	Apr. 2
10%	N Y Air Brake....	2½%	Q	Mar. 4	Mar. 21
$16	N Y Transit......	$4	Q	Mar. 22	Apr. 15
10%	Niles-Bem-Pond, c.	2½%	Q	Mar. 1	Mar. 20
7%	Norf & West, c....	1¾%	Q	Feb. 28	Mar. 19
	O				
$5	Ohio Oil	$1.25	Q	Feb. 28	Mar. 31
....	Ohio Oil, ext......	$4.75		Feb. 28	Mar. 31
	P				
7%	Pan Am P & Tr, p.	1¾%	Q	Mar. 15	Apr. 1
$5	Pan Am P & Tr, c.	r$1.25	Q	Mar. 15	Apr. 10
6%	Penmans, Ltd, p...	1½%	Q	Apr. 21	May 1
7%	Penmans, Ltd, c...	1¾%	Q	May 5	May 15
7%	Petti Mull,ken 1st p	1¾%	Q	Mar. 20	Apr. 1
7%	Petti Mulliken, 2d p	1¾%	Q	Mar. 20	Apr. 1
	R				
7%	Ry St Springs, p...	1¾%	Q	Mar. 10	Mar. 20
8%	Ry St Springs, c..	2 %	Q	Mar. 17	Mar. 31
$2	Reading, 2d p.....	50c	Q	Mar. 25	Apr. 10
7%	Rep Ir & Steel, p..	1¾%	Q	Mar. 20	Apr. 1
	S				
$1.40	St. Joseph Lead ...	35c	Q	Mar. 8	Mar. 20
$1	Shat-Arizona	25c	Q	Mar. 31	Apr. 19
7%	Sherwin-Wil, p....	1¾%	Q	Mar. 15	Mar. 31
6%	South Pacific	1½%	Q	Feb. 28	Apr. 1
$20	South Penn Oil ...	$5	Q	Mar. 12	Mar. 31
8%	South P R Sug, p.	2 %	Q	Mar. 15	Apr. 1
20%	South P R Sug, c.	d5 %	Q	Mar. 15	Apr. 1
$12	So'w Penn P Lines	$3	Q	Mar. 15	Apr. 1
$12	Stand Oil of Ky..	$3	Q	Mar. 15	Apr. 1
$12	Stand Oil of Ohio.	$3	Q	Feb. 28	Apr. 1
....	Stand Oil of O, ext	$1		Feb. 28	Apr. 1
$3	Strom Carb	75c	Q	Mar. 15	Apr. 1
....	Strom Carb, ext...	25c		Mar. 15	Apr. 1
	T				
7%	Tob Prod, p........	1¾%	Q	Mar. 14	Apr. 1
2%	Tri-City Ry & Lt, p	½%	Q	Dec. 31	Apr. 1
	U				
7%	Underwood Type, p	1¾%	Q	Mar. 15	Apr. 1
8%	Underwood Type, c	2 %	Q	Mar. 15	Apr. 1
$5	Un Carbide & Car..	$1.25	Q	Mar. 10	Apr. 1
4%	Un Pacific, p.......	2 %	S	Mar. 8	Apr. 1
10%	Un Pacific, c.......	2½%	Q	Mar. 8	Apr. 1
5%	Un Tank Line.....	2½%	S	Mar. 1	Mar. 25
7%	Un Dyewd Corp, p.	1¾%	Q	Mar. 14	Apr. 1
10%	United Fruit	2½%	Q	Mar. 20	Apr. 15
....	United Fruit, ext..	½%		Mar. 20	Apr. 15
$16	U S Ind Alcohol, c	$4	Q	Mar. 4	Mar. 17
5%	U S Steel, c......	1¼%	Q	Feb. 28	Mar. 29
....	U S Steel, c ext...	1 %		Feb. 28	Mar. 29
	W				
$4	White Motors	$1	Q	Mar. 15	Mar. 31
4%	Wisconsin Central.	2 %	S	Mar. 11	Apr. 1
$2	Wolverine Cop Min	50c	Q	Mar. 15	Apr. 1
7%	Woolworth, F W, p	1¾%	Q	Mar. 10	Apr. 1
7%	Wor P & Mch, p A	1¾%	Q	Mar. 20	Apr. 1
6%	Wor P & Mch, p B.	1½%	Q	Mar. 20	Apr. 1

ext—Extra dividend.
a—Initial dividend.
xx—Payable in Liberty Loan Bonds.

STOCK MARKET AVERAGES



AVERAGE PRICE OF 40 BONDS



Financial News and Comment

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—Editor.

Railroads

Central of N. J. Allowance 21% on Stock

On the basis of its certified standard return of $9,352,301, nearly 21% should be shown on stock. This allows for 10% Federal taxes on taxable income accrued. Standard return, certified $9,352,301, other income $847,052, less charges $5,303,707 and federal tax (10%) $489,565 equals $4,406,091, dividends received from other companies $1,303,654. Equals net of $5,709,745.

This sum, which takes no account of corporate expenses, is nearly 21% on $27,436,800 stock, on which 12% is regularly paid.

Chicago Greatwestern Contract Nets 3% on Preferred

Terms of the Railroad Administration have been accepted and its contract for compensation under Federal control now only awaits signature. Compensation has been fixed at the average net operating income for the three test years, or $2,953,449 annually.

On the basis of other income and fixed charges as of the calendar year 1917, and allowance for the war income tax, the company's surplus applicable to dividends or corporate purposes can be estimated at $1,334,762. The surplus as here estimated is equivalent to 3.03% upon the $43,926,000 preferred stock.

Delaware & Hudson Asks Permission to Issue Bonds

Petition has been filed with with the Public Service Commission asking approval for the issuance and sale of the $4,460,000 of its first and refunding mortgage bonds to mature on May 1, 1943.

The proceeds of the bonds are to reimburse the company's treasury for additions and betterments to its property; for proposed expenditures of $1,534,346, and for retiring $1,700,000 3-year notes, dated Aug. 1, 1917.

Delaware, Lack. & Western Shows Up Well

On the basis of its standard return, as certified by the Commerce Commission, earnings should show for 1918 about 30% on stock, besides a coal depletion credit, amounting to about 5% on the stock.

The company is certified for $15,749,477.

The coal department earnings were $4,321,268 in 1917. For 1918 they may be estimated at $3,500,000.

Erie Net Income for Quarter, $2,102,759

For the quarter ended Dec. 31, 1918, reported operating revenues, $25,901,502; net income, $2,102,759.

A plan is under consideration by the Railroad Administration to provide for the maturity in April, 1919, of the company's $15,000,000 notes, the proposal being an offer to present noteholders to renew their notes at 6% with a bonus of $15 per $1,000 note. The price of the new notes would be 98½. It was further suggested that the collateral back of the proposed new issue would include the same securities as already pledged, together with certain additional collateral.

Great Northern Federal Compensation $28,777,360

Federal operating contract of the U. S. R. R. Administration was signed in Dec., 1918, the annual compensation being fixed at $28,777,360.

New Haven Counsel Fight Receivership

Federal Judge Manton heard arguments on the application for the appointment of a limited receiver to press suits against former directors of the company and the company itself, for the recovery of money aggregating $165,000,000, which it is alleged was wasted in various wrongful and illegal ways. The plaintiff is Harold Norris, as chairman of a committee of 1,716 minority stockholders, owning 50,065 shares of stock.

Counsel for the defendants contended that the court was without jurisdiction, and submitted other points against the application.

Decision was reserved.

New York Central Accepts Bids

An official statement says: "The Director General has authorized the acceptance of bids made approximately on a 6% basis, for Equipment Trust Certificates of certain of the New York Central Lines, as follows:

$7,410,000 principal amount, New York Central R. R. Equipment Trust of 1917 4½% certificates.

$7,800,000 principal amount, Michigan Central R. R. Equipment Trust of 1917 6% certificates.

$2,133,000 principal amount, Big Four Ry. Equipment Trust of 1917 6% certificates.

The companies have accepted these bids.

Norfolk & Western Will Increase Capital

In connection with the notification to the N. Y. Stock Exchange of the intention to submit to stockholders a proposal to increase the capital stock by $100,000,000, Victor Morawetz, a director, said the action was in line with the policy of keeping its authorized stock considerably above the amount issued, and there was no present intention to make use of any part of the increase.

Pennsylvania Retrenching

Working hours of all employes in its shops east of Pittsburgh, exclusive of those working in the engine houses, have been reduced to 44 hours a week, with proportionate reduction in wages. About 2,000 men will be affected. The company has continued the reduction of its working force at the Hollidaysburg shops, with present total of about 110 men, as against 450 previously engaged. The working force at the Harrisburg shops has also been reduced.

Following the meeting of directors the announcement was made:

"In connection with steps which are being taken toward the absorption of Cumberland Valley R. R. by the Pennsylvania system through acquisition of its property and franchises, Col. M. C. Kennedy, president of the Cumberland Valley R. R. Co., was appointed an officer of the Pennsylvania R. R. Co. with the title of resident vice-president of Cumberland district.

"Necessary action to carry out the merger has been taken by the boards of directors of both companies. Approval by the stockholders of the company will be requested at the annual meeting March 11, 1919, and by the stockholders of Cumberland Valley R. R. Co. at a special meeting to be held subsequently. Col. Kennedy will continue as president of Cumberland Valley R. R. until its corporate affairs are terminated."

Pittsburgh & West Virginia Coal Properties to Be Segregated

Definite steps are said to have been taken looking to the segregation from coal subsidiary, and the placing of the railway company's common stock on a dividend basis of 5% per annum.

This is stated in New York banking circles. This would leave the entire earnings from the railway applicable to the $9,100,000 preferred stock, or more than sufficient to cover the annual dividend of 6%.

Estimates of Seaboard Earnings at 2% on Preferred

On the basis of certified standard return, earnings should show for the year ended Dec. 31, 1918, about 2% on its preferred On the basis of claims for additional compensation the road should show about 31½% on the common, after allowing 6% for the preferred.

Seaboard is certified by the Commerce Commission for $6,508,025, and is seeking $2,500,000 additional, mostly on account of its investment in the East Carolina Lines.

Although assured of sufficient rentals under Government control to pay interest on all its bonds, they are now selling at low levels, and return an unusually large yield, particularly the adjustment mortgage issue, which, at present market prices, returns more than 10%.

The adjustment mortgage 5% bonds were issued in October, 1909, since which time they have paid interest regularly. They are secured by a mortgage on all the property, subject, however, to refunding 4% bonds.

The physical condition has been greatly improved in recent years, and the general growth of the South has made the property one of the important trunk lines of the U. S.

Therefore, on return of railroads to private ownership, the prospects for increased earning power for the company seem very bright.

Industrials

Car & Foundry Will Take Over National Steel Car

Negotiations have been completed whereby the National Steel Car Co. of Canada will be taken over and operated. It is expected that full details of the plan will be made public at a special stockholders' meeting of the Canadian corporation to be held shortly.

The operation of the plant of the National Steel Car Co. of Canada, it is pointed out, is of great benefit, due to the fact that there is going to be great rehabilitation of the Canadian railroads during the next two or three years. The resources of Canada offer tremendous possibilities for the future.

It is said that the price for the preferred stock of the National Steel Car Co. is 114, and for the common 25. The company has $3,000,000 7% cumulative preferred authorized, of which $1,500,000 is outstanding, and $3,000,000 common authorized, of which $2,000,000 is outstanding.

Earnings for the current fiscal year ending April 30, 1919, are expected to surpass all records. Since May, 1918, gross business has totaled $950,000 daily, making possible a twelve months' turnover of about $300,000,000.

Cotton Oil Earns Dividend Requirements in Half Year

The executive committee has held a meeting and, according to information, figures were produced which show that the company earned its full common and preferred dividends during the first five and one-half-months of the current year.

Hide & Leather Will Retire Bonds

Having a surplus of cash on hand arrangements are being made to retire at par and interest the bonds outstanding. This is for any of the bondholders who desire to take advantage of this opportunity. At present there are outstanding $2,525,000.

American International Employes Strike

Approximately 25,000 men were thrown out of work at the Hog Island shipyard when 400 foremen struck for an increase in wages from $64 to $70 a week.

The foremen struck after they had served notice on this company, which operates the yard.

With the foremen out the plant was virtually closed down. The men affected by the foremen's walk-out were mostly engaged on outside construction work.

A conference has been arranged for between Director-General Piez of the Emergency Fleet Corporation, and representatives of the foremen.

At Mr. Piez's office the opinion was expressed that the strike would be short lived.

Amer. Loco. Shows Net of $5,095,468 for Six Months

A record-breaking output for the six months ended December 31, 1918, is reported by the company.

After all charges, including Federal and Canadian taxes, the company shows profits available for stock of $5,095,468 for the six months, equal to $16.88 a share on the common stock, or at the annual rate of $33.76 a share, compared with $3,094,251, equal to $12.37 per share, or at the annual rate of $24.74 in the half year ending December 31, 1917.

Andrew Fletcher, president, in submitting the report to stockholders, said in part:

"It is vitally important to the prosperity of the locomotive industry and all industries connected with the building and equipment of railways, that a prompt and definite settlement be made of the question before Congress of the disposition and financing of the railroads of this country: such settlement will aid materially to the readjustment of general business from a war to a peace basis."

Steel Foundries Closes Plant

Franklin, Pa., plant has been closed down, thereby throwing 350 men out of employment for an indefinite period. During the war period as high as 550 men were employed here.

Progress Shown in Woolen's War Contracts Adjustment

Considerable progress has been made between the Government and the company in the adjustments of war contracts. A settlement is expected shortly, which, according to report, will be favorable to the company. The mills have not been very active of late, but it is stated that a good supply has been piled up to meet any demand. It is stated also that during the past few weeks distributers have been buying more freely than for some time.

Baldwin Delivers 186 Locomotives in January

The bulk of the seventy-one locomotives delivered by the company in January, 1919, for the Railroad Administration, were shipped as follows: Lehigh Valley, 5; Pennsylvania, 5; Baltimore & Ohio, 33; and Philadelphia & Reading, 5.

The company also shipped ninety miscellaneous locomotives, and completed twenty-five foreign locomotives, making a grand total of 186 for the month.

Chandler's New Plant Soon Finished

F. C. Chandler, president, has announced that plans were being prepared for a manufacturing structure containing approximately 200,000 square feet and costing, including the land, $550,000.

According to present plans of the company, which was organized recently by the Chandler interests, the plant is to be completed and in operation by July, 1919. The site, about eighteen acres, will be located in the East End, and will employ 1,000 men.

Corn Products Reduces Grinding

Grinding of corn has been reduced 25,000 bushels per week. The Pekin plant has been cut down from 38,000 bushels to 15,000 bushels per day, and the Argo plant from 65,000 bushels to 55,000 bushels, owing to large stocks of product and slow trade.

Goodrich Earns $15,637,114

Annual statement issued recently showed net after charges of $15,637,114, equivalent to $23.08 a share earned on the $60,000,000 common stock. In 1917 the company showed net profits after charging off $2,250,000 for war taxes of $10,544,677, equal to $14.49 a share earned on the common.

International Harvester Readmitted to Texas

Under the provisions of a new law passed by the Legislature the company and other corporations that were ousted from Texas by decisions of the courts for alleged violations of the anti-trust acts several years ago may be readmitted to do business in this state. The outlawed companies are required to return to the State with "clean hands"; that is to say, they must comply with certain stipulations in the matter of satisfying the Attorney General that they are no longer objectionable from the standpoint of public policy.

It may be noted in this connection that a complete change in public sentiment toward alleged trusts and monopolies has taken place in Texas during the last few years, due to the development of the oil and the other natural resources of the State. It is well known that the Standard Oil Co., through several of its subsidiaries, is operating openly in Texas, although the judgment of the courts forever barring it from doing business in the State is ostensibly in effect.

Lackawanna Steel Shows $23.79 a Share for 1918

Surplus after Federal taxes and all charges was equal to $8,348,354, equivalent to $23.79 a share earned on the $35,097,500 common stock outstanding, as compared with surplus of $16,106,977 or $45.89 a share in 1917.

Savage Arms Shows $1,336,275

In annual statement recently issued the earnings on the common showed $16.79 a share on the 79,580 shares outstanding. This compares with $16.44 a share earned on the 87,155 shares outstanding in 1917.

Studebaker Production Increases

Production is increasing just as rapidly as it was when passenger car production was resumed in January, 1919. As matters now stand it should get out about 6,500 cars the first quarter of 1919, or 2,000 cars more than in the first quarter of 1918.

After that an output of 11,000 cars per quarter will be maintained for the balance of the year, an easy operating feat, which will permit of a very even manufacturing cost.

Packers Exchange Properties

Swift and Armour have effected an exchange of properties, whereby the expansion plans of both corporations will be facilitated. Armour & Co. have sold to this company what is known as the Armour mechanical property, comprising about seven acres of land on south branch of the Chicago River, improved with a new machine shop, covering about one and one-half acres, and several small buildings, valued at around $300,000. This property will be used by this company as necessary extensions to part of its business on the adjoining property.

In exchange, Armour & Co. acquired from this company the old Northwestern glue property, with a four-story glue factory, indicated price $200,000. The holding comprises 301x397 feet, the north half of which will be used for trackage and a right of way to the company's new beef cooler and refrigeration plant, in construction, while the south half will be improved with a large cold storage plant.

Worthington Earnings Expected to Approximate $35

The annual report will show about $35 a share for the common stock after taxes, against $26.33 in 1917. The company has on hand a large volume of business for 1919. New business has been coming in at the yearly rate of $15,000,000. For some time the company has borrowed no money, and is in an exceptionally strong cash position. This is largely due to the fact that, although in 1917 earnings were at record level, the directors elected to turn most of the money back into the company. The company's product for the past two years has consisted chiefly of naval pumps and machinery. With the coming of peace it will have not only a continuation of this work, but also should profit by the de-

mand for similar work for the merchant marine.

Public Utility Notes

$29,000,000 10-Year B. R. T. Bonds to Be Protected

Two bills in equity have been filed in the United States District Court to protect the formal rights of the Central Union Trust Co., as trustee under two company mortgages in pursuance of orders granted recently by Judge Julius M. Mayer. In one instance the issue was of $60,000,000 long term bonds issued by the N. Y. Municipal Railway Corp. and in the other $29,000,000 6% ten-year bonds dated June 1, 1918, issued by this company. In each case the terms of the mortgage provided that the establishment of a receivership should be accounted a cause for foreclosure. The two bills may be regarded as of a formal character, designed chiefly to protect the rights of the trust company. They were filed by Henry V. Poor and John M. Perry, of 54 Wall Street.

Columbia Gas & Electric in Strong Position

As regards both the finances and earnings this concern is in a stronger position than is generally regarded. It was learned that in spite of the heavy war burden under which it has been forced to operate, it will make a very good showing in its report for 1918. The Philadelphia company is a big purchaser of gas and oil from the Columbia company, taking, in fact, all of the surplus which the latter organization can spare. United Fuel Gas Co., a subsidiary organization, is reported to have a tremendous surplus on hand which is almost certain to be distributed on its stock during 1919.

Commonwealth Edison Increases Capacity

In his statement to stockholders, Samuel Insull, president, said in part:

"During the year there was a large demand for industrial power, requiring a considerable increase in the company's plant capacity. Whenever line extensions were necessary, however, the customer was called upon to advance the capital therefor and this accounts for the increase in customers' deposits over the amount shown in last year's report. These advances will be liquidated over the remaining period of the customers' contracts.

"The foresight of the company in providing its own coal mines has continued to be of great advantage. It is estimated that the saving from this source was not less than $1,000,000."

New Financing for Great Western Power

Mortimer Fleishhacker, president of the company, who has just returned from a trip the East, brings news of the consummation of the largest and most important financial deal involving California hydroelectric properties completed since the beginning of the war. Just before leaving New York, President Fleishhacker closed a deal with an Eastern syndicate for underwriting $7,500,000 securities of the Great Western Power Co. of California, a new corporation, which will take over the properties of the company. The new securities consist of $6,000,000 first and refunding 6% bonds of the new Great Western Power of California, and $1,500,000 of 7% cumulative preferred stock of the same corporation.

This financing paves the way for the expansion of the company's business, and is of vast importance to Northern California, for it means the expenditure of large sums in this territory and the development of industries, particularly in the bay region, which are dependent upon "white coal" for productive energy.

Laclede Gas Shows $485,114

The annual report for the year ended December 31, 1918, showed a surplus after taxes, charges, and preferred dividends of $485,114, equivalent to $4.53 a share earned on the $10,700,000 common stock, as compared with a surplus of $918,181, or $8.58 a share in 1917.

Ohio Cities Gas Earns $10,116,823

The consolidated income account for the twelve months ended November 30, 1918, showed a gross of $44,970,898, operating expenses, including ordinary taxes, $30,291,471,

and a balance after depreciation, taxes and so forth of $10,116,823. Dividends paid were equal to $9,485,170, which left $631,053 for surplus.

Shawinigan Water & Power Shows $1,410,094

For the year ended December 31, 1918, $1,410,094 was shown, before dividends. President Aldred stated that the annual report only shows $917,000 of the 6% convertible notes as being converted out of the total issue of $4,500,000, but informed the stockholders at the meeting that since January 1, 1919, over $300,000 additional notes had been converted into common stock, so that the conversion total now is close to $1,220,000.

Oil Notes

Allen Oil Brings in Well

On the Byron field, Wyoming, the second well has come in, flowing 100 to 125 bbls. There are nine wells in this field, of which seven are yet to be deepened to the new sand.

Angelo-American Shows Net of $3,916,398

In 1917 profits from operations were $6,692,936 and net profits available for dividends, $3,916,398. These figures compare with gross profits of $5,464,417 in 1916 and net profits of $2,943,402. This is an increase in net of $972,996 available for dividends. After payment of 30% dividends in 1917 profit and loss surplus increased $987,798. As the present capital is $10,000,000 in American money, the net earnings in 1917 were equivalent to 39% on the capital stock.

Atlantic Refining Constructing Tanks

Construction of seven steel tanks, each of 55,000 barrels capacity, and five tanks each of 10,000 barrels capacity, at its Port Atlantic terminals. It has finished grading the site for its proposed refinery and the construction of the plant will be started soon. The erection of the building for the machine shops and pumping plant is in progress.

New Interests in Galena Signal

At the annual meeting numerous changes were made in the directorate and management, indicating that new interests have assumed control of its operations and directions. J. S. Cullinan, one of the organizers of the Texas Co., was elected president to succeed Gen. Charles Miller.

Five new directors were elected to the board, including Mr. Cullinan. The others were Frederick Strauss of J. & W. Seligman & Co., John B. Dennis of Blair & Co., L. F. Jordan and D. V. Sedgewick. They succeeded Charles Miller, C. C. Steinbrenner, G. C. Miller, D. D. Mallory and G. F. Proudfoot.

The election of J. S. Cullinan as president, in place of Gen. Charles Miller, is regarded as a natural development in view of the fact that the company's future expansion will come mainly from its Texas properties. Mr. Cullinan is thoroughly familiar with Texas oil conditions.

These properties included some of the best grade crude oil suitable for the manufacture of lubricating oils. Previously the company was largely dependent on Pennsylvania crude for its supply, but the falling off in Pennsylvania production, and the growth of the company's business necessitated the acquisition of Texas production and refining properties. As a result of this development the position of the company is greatly strengthened.

Globe Oil Brings in Third Well

Third well has been completed on its 160-acre lease in the Osage Nation, and the well, only a few feet in the sand, is flowing over 100 barrels a day. Well No. 4 has been ordered to be started immediately.

Louisiana Oil Will Start Drilling

Preparations are being made to start an active drilling campaign on its 2,200 acres of oil lands located in the new Homer field in Claiborne Parish, La., where a new oil sand has been discovered. The discovery of a new light oil pool in this field and the bringing in of a 2,500 barrel well of 30 to 34 gravity oil, an unusually light grade for North Louisiana, by another concern, has caused the company to proceed to develop their acreage, which is located in the midst of the new field.

Will Build Bulkhead

Representatives have applied for permission to build a bulkhead on a property near Fishing Point, Curtis Bay. It is said that intentions are to erect a big refinery, involving an outlay of $1,000,000. Plans of the company comprise reclamation of about 70 acres of marsh land.

Midwest Refining Gets Control of Western States Oil and Land Co.

Purchase of 51% of the capital stock of the Western States Oil and Land Co. has been made, thereby gaining control of that corporation. The stock amounted to $100,000 of par value, which is $1. In obtaining control the company becomes possessed of some of the best producing properties in the State of Wyoming.

Pittsburgh Oil & Gas' Net $275,705

Profit and loss statement shows gross

income $1,023,576 for 1918, as compared with $606,630 for 1917; balance for division after taxes and charges was $275,705 for 1918, as compared with $208,527 for 1917.

"Since the last annual report, the company, through its underlying companies, has acquired 11,104 acres of oil leases, and now has 61,330 acres in force.

"The company drilled during the year 65 oil wells; four gas wells and 13 dry holes; purchased 125 wells, sold 17 wells, and abandoned 44 wells, and as of this date has a total of 1,112 wells.

"While at present it is difficult to estimate the approximate production, yet with the approach of warmer weather it is safe to predict very gratifying results."

Pittsburgh-Texas Oil & Gas Offers Shares

Geologists report on the holdings of the company being favorable, drilling has already begun in Eastern Edwards County. A syndicate has underwritten 120,000 shares of the company (par $10) and it is being offered to the public at $4 a share.

T. A. Neill, for 28 years superintendent of the South Penn Oil Co., and for over three years general superintendent of all South Penn field operations, has resigned from that company and becomes president and general manager of this, which owns 70,000 acres in Central Texas oil fields.

Prairie Oil & Gas Co.

According to a report Prairie has paid off all of its outstanding 50-year debenture 6% bonds, due 1955 to 1960. By this action the company has eliminated all of its funded debt, the original amount being $17,000,000.

Standard Oil of Kentucky Surplus $2,834,607

Balance sheet as of Dec. 31, 1918, shows assets of $15,287,967, of which merchandise equals $5,544,034 and cash accounts receivable, etc., $3,329,118. Liabilities are composed of accounts payable $3,370,384, reserve $1,646,372, insurance funds $186,604, income and war tax $1,250,000. Surplus equals $2,834,607.

Boilermakers at Riverside, Ky., have demanded higher wages, and appealed to the Labor Department to intervene.

Texas-Gulf Refining Expanding

Purchases of 135 acres, 4 miles north of Wichita Falls have been made, development of 35 acres as a site for oil refinery, tank farm and loading racks, and 100 acres for a town site to be known as Oildom will be started; daily capacity of oil refinery (No. 1) 3,000 barrels and of tank farm, 20,000 barrels; construct oil pipe line of 20,000 barrels carrying capacity from Burkburnett fields to tank farm; plans expenditure of $500,000 for town site development, to include electric light plant, business buildings, dwellings, etc.; has applied for post office; arranged with railroad for establishment of telegraph communication, trackage and other facilities; also acquired Abilene Oil & Refining Co., and will erect oil refinery (No. 2) of 1,000 barrels daily capacity at Abilene.

Texas & Pacific Coal & Oil Negotiates for Drilling Rights

The "Wall Street Journal," Feb. 25: Negotiations for the leasing of the drilling rights to 85,000 acres of land which it owns in fee simple in the Ranger field in North Central Texas are being made.

These rights are being sought by Standard Oil of N. J. interests, the instrument through which the deal is being prepared being the Humble Oil & Refining Co. Control of the latter was recently acquired by the Carter Oil Co., a subsidiary of the Standard Oil Co. of N. J., by the purchase of 41,000 shares of stock for about $17,000,000.

Mining Notes

Alaska Gold Reports Deficit

For the quarter ended December 31, 1918, deficit of $78,321 was reported. This com-

pares with $11,934 in the previous quarter. Total deficit for the year was $110,290, compared to a profit of $273,636 in 1917. The report says in part: "During the quarter the mine produced about 3,126 tons per working day, against 2,400 for the third quarter, an increase of 726 tons per day. A total of 173,138 tons of ore was broken in the mine, and 287,875 trammed to ore ways, leaving an estimated total of 1,718,173 tons of broken ore remaining in stopes."

Smelters Executes Agreement on Exchange of Bonds

Supplemental agreement has been executed, dated January 24, 1919, modifying the first mortgage of 1917 so as to permit the exchange of coupon bonds of the denomination of $1,000 for coupon bonds of the denomination of $500 or $100 and for the exchange of coupon bonds of the denomination of $500 for coupon bonds of the denomination of $100 of the same series. The New York Stock Exchange has authorized the listing of said bonds so modified as to apply up to a total of $46,256,400 of coupon bonds represented either by coupon bonds of $1,000 each, numbered M1 upwards, coupon bonds for $500 each, numbered from D1 upwards, or coupon bonds for $100 each, numbered from C1 upwards.

Anaconda Shows Large Zinc Ore Production

Zinc ore tonnage on February 20, 1918, was 1,600 tons, the largest in its history. Zinc ores are averaging more than 11%, with more than six ounces of silver per ton and carry lead in addition.

Butte & Superior Earns 33c. for Quarter

After operating costs and taxes, profits were shown of $96,506, equal to 33c a share. For the entire year total profits were $698,322, equivalent to $2.40 a share as compared to $9.38 a share in 1917.

Report states in part: "Increase in tonnage of ore milled compared with the third quarter is not as great as was to be expected, owing to the reduced forces during the early part of the period.

"Underground development work has shown very favorable results. Ore reserves were increased and development work should within the next three months add a material tonnage to reserves. Some decrease was evidenced in the cost of mining compared with the previous period," the report adds. "The supply of labor is plentiful and improvements in efficiency will in all probability permit of some reduction in mining costs, in spite of the increase in the proportion of overhead expenses incident to reduction in output which will, no doubt, prevail for several months. The average spelter price used in estimating concentrate returns was 7.89c."

Chino's Copper Costs 18.10c. Per Pound

Cost per pound of net copper produced from milling operations and the crude ore shipped to the smelter for the fourth quarter, after allowing for smelter deductions, was 18.10c, compared to 19.08c for the third quarter.

Earnings for the fourth quarter are based on a price for copper of 18.24c per pound, compared with 24.65c per pound for the third quarter.

Cons. Coppermines Produces 1,366,136 Lbs.

January production totaled 1,366,136 pounds of copper compared to 1,637,997 pounds in December. Owing to the stagnation of the copper market it has been decided to suspend all production for the time being.

Goldfield Cons. Has Increased Its Leases

Secretary C. F. Burton, of the company, said a statement: "During the past two years the leasing policy has been gradually extended until it now appears the small amount of ground that has remained to be worked on company account does not justify maintaining the staff and machinery necessary for its administration.

"A five-year lease covering the entire mining property in the Goldfield district, milling plant excepted, has been given to the Goldfield Development Co., an entirely independent organization, which will in the future bear the operating expense and pay your company a royalty of from 15% to 20% of the proceeds from the sale of all ore produced, after deducting marketing charges.

"The Goldfield Development Co. had purchased the Hazel Queen claim and obtained a bond of the February claim to run concurrent with the lease.

"Your board of directors has requested of the Goldfield Development Co. that of any stock offered to the public, the stockholders be first given the refusal on a prorated basis."

Magma Shows Increased Output

Company shipping more ore than it ever did, especially rich peacock ore, which is coming in about three times the former quantity. Heavy shipments began latter part of February and are now running about 200 cars a month, which is about double. Management reticent as to whether the new shaft has been completed, but all indications point to continued heavy shipments of extremely rich ore.

Ray Cons. Copper Costs 19.305c.

The quarterly report said in part: "The average cost per pound of all net copper produced for the quarter was 19.305c. This compares with a cost of 20.283c for the previous quarter. These costs include a charge of 15c per ton of ore milled for the retirement of mine development expense. The average carrying price of copper for the quarter was 20.803c, compared with 24.156c for the previous quarter.

"With cessation of the European war and quickly following the signing of the armistice, the demand for copper suddenly ceased. This was due to the cancellation by the Government of orders for munitions and other war material, for which copper in very large amounts was being taken monthly as required. Drastic curtailment of production should have been inaugurated immediately. However, at the request of the War Industries Board, the output of copper was continued until the end of the year at a fairly high rate of production, in order to keep labor employed, pending readjustment to a lower price level. This has resulted in the accumulation by the producers of a large stock of unsold copper, carried by the company, as usual, in its metal inventory at 13½c per pound, which condition is reflected in the reduced earnings for the quarter.

"It is confidently expected that a return to normal conditions in domestic manufacturing and a revival of our export trade, upon the restoration of industrial activities in Europe, will create a demand for our product at a price that will give the shareholders a reasonable return on their holdings. During the period of this very unsettled condition of the copper market, therefore, there must of necessity be a further curtailment of production."

Utah Copper Reduces Wages—Shows $2.05 for Quarter

Notice has been given to all employes of a general reduction of 25c a day in wages. This is the second reduction since copper was cut from 26c. The maximum of the previous cut was 75c, making $1 a day cut inclusive of the new reduction.

The reasons given by General Manager R. C. Gemmell for the action are "the critical condition of the copper market and the inability of producers to dispose of the metal."

For the quarter ended December 31, 1918, total profits show $3,331,723, equivalent to $2.05 a share earned on $16,244,900 capital stock of $10 par value. This compares with profits of $5,310,011, or $3.26 a share, in the preceding quarter.

The report states: "Average cost per net pound for all copper produced from concentrates, sulphide ore, and leaching plant precipitates was 17.88c per pound, compared with 16.81c for the previous quarter. The comparatively high cost for the quarter was due partly to increased smelting and refining charges, increased freight rates, and higher wages, and also partly to decreased production.

"The earnings for the fourth quarter are computed on the basis of 20.44c per pound for copper, against a basis of 24.04c for the third quarter."

United Verde Shows Record Production

For the fourth consecutive year a production record was established in 1918, with a yield of 77,501,595 pounds of copper, 1,292,109 ounces of silver and 29,281 ounces of gold. With the falling off in demand for the metal Senator Clark, controlling the property, decided upon curtailment of about 35%, but recent labor troubles have occasioned a complete shutdown. At capacity the company had been producing about 7,500,000 pounds of copper a month.

Although producing over 77,000,000 pounds of copper last year, United Verde sold but 51,431,342 pounds, receiving an average price of 24.42c a pound. The balance of 26,070,253 pounds has been carried into this year, against 20,000,000 pounds brought forward into 1918 from previous year.

Victoria Copper's Net $31,405

Report for the year ended Dec. 31, 1918, shows production of 1,533,536 pounds of copper and net profits of $31,405.

It cost 22.16 cents per pound to produce the metal. It sold 1,203,230 pounds at an average price of 24.85 cents per pound, carrying the remainder, 303,306 pounds, on its books at 18 cents per pound.

Cash assets as the close of the year stood at $321,623, of which cash represented $87,000, Liberty bonds $112,500, copper $60,808, and the balance supplies on hand. Accounts payable totaled $22,382, leaving net quick assets of $299,241.